Effect of Profitability on Firm Value: Evidence from Quoted Consumer Goods Companies in Nigeria

Paul Ejike Udeozor[1*], Christopher Adeoye Joel[2], Bernard Eche Obia[3], Zainab Onoshiorena Salawe[4], Timothy Aguzebe Musa[5]

[1,3,4,5] Department of Accounting, Nasarawa State University, Keffi, Nasarawa State.

[2]ANAN University Kwall, Jos, Plateau State.

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ABSTRACT

This study examined the effect of profitability on firm value, measured by share price, among quoted consumer goods companies in Nigeria. Specifically, it investigated the effects of return on assets (ROA), return on equity (ROE), net profit margin (NPM), and earnings per share (EPS) on share price, while controlling for firm size. The study adopted an ex-post facto research design and used secondary data extracted from the audited annual reports and financial statements of selected consumer goods companies listed on the Nigerian Exchange. The study covered 180 firm-year observations and employed descriptive statistics, correlation analysis, diagnostic tests, and panel regression analysis using Panel-Corrected Standard Errors (PCSE). The findings revealed that ROA and ROE had positive and statistically significant relationships with share price, while NPM had a negative but statistically insignificant relationship. EPS exhibited a negative and statistically significant relationship with share price, contrary to the conventional expectation that higher earnings per share should enhance market valuation. Firm size also had a positive and statistically significant relationship with share price. The study concludes that the relationship between profitability and firm value varies across financial indicators, with asset utilisation, returns on shareholders' equity, and firm size demonstrating positive associations with market valuation. It recommends that management improve asset utilisation, strengthen shareholders' returns, maintain effective cost controls, and communicate financial performance transparently to investors.

Keywords: Profitability, firm value, share price, return on assets, return on equity, net profit margin, earnings per share, firm size.

INTRODUCTION

The consumer goods sector plays an important role in Nigeria's economy by producing and distributing essential products such as food, beverages, household items, and personal care products. Companies operating in this sector contribute to economic activities, employment generation, and the satisfaction of consumers' everyday needs (National Bureau of Statistics [NBS], 2023). Given the competitive nature of the industry, these companies must maintain product quality, build strong brand reputations, and demonstrate sound financial performance to retain customers and sustain investor confidence (PwC Nigeria, 2021). Their ability to remain competitive and create value for shareholders depends, to a considerable extent, on how effectively they manage their financial resources and generate sustainable profits.

Firm value is an important indicator of a company's financial position, market performance, and future growth prospects. It reflects investors' assessment of the company's ability to generate future earnings and cash flows while creating wealth for its shareholders. For companies quoted on the Nigerian Exchange (NGX), firm value is particularly important because it influences investment decisions, market valuation, and access to capital. Investors generally seek companies that offer attractive returns relative to the risks associated with their investments. Consequently, they often consider indicators such as share prices, market capitalisation, Tobin's Q, and price-to-earnings ratios when evaluating the value and prospects of a company (Bessler et al., 2022). These measures provide different perspectives on how the market assesses a company's financial strength,

growth potential, and ability to generate shareholder wealth. In this regard, firm value remains a central concern in corporate financial management because it reflects both the outcomes of managerial decisions and investors' expectations about future performance (Gillan et al., 2021).

One of the major factors that may influence firm value is profitability. Profitability refers to a company's ability to generate earnings from its sales, assets, and shareholders' equity over a given period. It is widely regarded as an important measure of managerial efficiency because it indicates how effectively a company uses its available resources to achieve its financial objectives. According to Odusanya et al. (2018), profitability is relevant to understanding corporate financial performance and the factors associated with share prices. Similarly, Adenle et al. (2025) emphasise the importance of profitability in assessing business performance, financial sustainability, and the interests of investors and other stakeholders. A company that consistently generates satisfactory profits is generally better positioned to finance its operations, meet its financial obligations, undertake expansion projects, and reward shareholders. Conversely, declining or unstable profitability may raise concerns about the company's operational efficiency, financial stability, and long-term prospects.

The relationship between profitability and firm value can also be explained through signalling theory. The theory suggests that corporate financial information provides signals that investors use to assess a company's prospects and make investment decisions. When a quoted company reports strong and sustainable profits, investors may interpret this performance as evidence of effective management, efficient resource utilisation, and favourable future earnings potential. Such perceptions can increase demand for the company's shares and potentially improve its market valuation. However, weak profitability may generate uncertainty about the company's ability to maintain its operations and deliver satisfactory returns, thereby discouraging investment. In this context, profitability can influence firm value not only through the actual earnings generated but also through the information that reported financial results convey to the investment market.

From an investment perspective, profitability is important because shareholders expect their investments to generate reasonable returns and appreciate in value over time. Before committing their funds, investors commonly examine a company's financial statements and other available information to determine whether its earnings performance justifies the risks involved. Companies that demonstrate effective cost management, efficient use of assets, and consistent revenue generation may be more attractive to potential investors. Management therefore has a responsibility to develop appropriate business strategies, improve operational efficiency, and maintain sustainable earnings without compromising the company's long-term competitiveness. Ha and Minh (2018) associate profitability with the effective management of business activities and costs, while Nawaf (2010) discusses profitability in relation to corporate earnings and cash generation. These perspectives underscore the relevance of earnings performance to business continuity and investment decisions.

Nevertheless, the effect of profitability on firm value may not be uniform across companies or economic conditions. A company may report high profits without experiencing a corresponding increase in its share price if investors consider its earnings unsustainable, its growth prospects uncertain, or its market risks substantial. Similarly, firms with relatively modest current profits may command higher market valuations when investors anticipate strong future growth. Firm size may also influence this relationship. Generally, firm size refers to the scale of a company's operations and may be measured using indicators such as total assets, sales revenue, or market capitalisation, depending on the focus of the analysis. Larger firms may benefit from economies of scale, stronger market presence, and improved access to finance. However, they may also experience higher administrative costs, operational complexity, and other diseconomies of scale. Akram et al. (2021) highlight firm size as an important organisational characteristic that distinguishes companies according to their scale of operations. These differences may help explain why profitability does not always translate into similar levels of market valuation across firms.

In empirical financial analysis, profitability is commonly assessed using ratios such as net profit margin (NPM), return on assets (ROA), and return on equity (ROE). Net profit margin measures the proportion of revenue retained as profit after accounting for expenses and applicable taxes. Return on assets evaluates how efficiently a company uses its assets to generate earnings, while return on equity indicates the returns generated

on shareholders' invested funds. Although these measures capture different dimensions of financial performance, they collectively provide useful information about a company's capacity to generate profits. Their relevance to firm value lies in the possibility that investors use reported profitability to assess managerial effectiveness, future earnings potential, dividend-paying capacity, and the sustainability of shareholder returns.

Despite the theoretical expectation that profitable companies should enjoy higher market valuations, empirical evidence on the relationship between profitability and firm value remains inconclusive. Some studies report a positive and statistically significant relationship, suggesting that improved profitability strengthens investor confidence and enhances market valuation. Other studies find that profitability has no significant effect on firm value, while some report a negative relationship under particular circumstances. These differences may arise from variations in research settings, measurement approaches, sample characteristics, observation periods, and prevailing economic conditions. They also suggest that investors do not necessarily respond to current profits in isolation but may consider the quality of earnings, expected future performance, market risks, and wider economic developments when valuing companies.

Against this background, examining the effect of profitability on firm value among quoted consumer goods companies in Nigeria is important for understanding whether improved financial performance translates into greater market valuation within the sector. The study is relevant to corporate managers seeking to strengthen financial performance and shareholder wealth, as well as investors who rely on accounting information when making investment decisions. It may also provide useful evidence for researchers and other stakeholders interested in the financial performance of companies listed on the Nigerian Exchange. By investigating the relationship between profitability and firm value, the study seeks to contribute to a clearer understanding of the extent to which the earnings performance of quoted consumer goods companies influences their market valuation in the Nigerian business environment.

Objectives of the Study

The main objective of this study is to examine the effect of profitability on the firm value of quoted consumer goods companies in Nigeria.

The specific objectives are to:

1. examine the relationship between return on assets and share price of quoted consumer goods companies in Nigeria;
2. assess the effect of return on equity on share price of quoted consumer goods companies in Nigeria;
3. determine the effect of net profit margin on share price of quoted consumer goods companies in Nigeria;
4. examine the effect of earnings per share on share price of quoted consumer goods companies in Nigeria; and
5. assess the effect of firm size on share price of quoted consumer goods companies in Nigeria.

Research Hypotheses

The following null hypotheses are formulated to guide the study:

H_{01}: Return on assets has no significant relationship with the share price of quoted consumer goods companies in Nigeria.

H_{02}: Return on equity has no significant effect on the share price of quoted consumer goods companies in Nigeria.

H_{03}: Net profit margin has no significant effect on the share price of quoted consumer goods companies in Nigeria.

H_{04}: Earnings per share has no significant effect on the share price of quoted consumer goods companies in Nigeria.

H_{05}: Firm size has no significant effect on the share price of quoted consumer goods companies in Nigeria.

LITERATURE REVIEW

Conceptual Review

Concept of Share Price (SHP)

Share price refers to the amount investors are willing to pay to purchase a share of a company on a stock exchange. It represents the market value of an individual share at a particular point in time and is influenced by several factors, including corporate financial performance, investor expectations, market sentiment, and prevailing economic conditions (Rahman et al., 2023). As a market-based indicator, share price provides useful information about how investors perceive a company's current performance and future prospects.

For quoted consumer goods companies in Nigeria, share price is particularly important because it reflects investors' responses to changes in business performance and the wider economic environment. Factors such as inflation, exchange-rate fluctuations, production costs, consumer purchasing power, and competition can affect the profitability and growth prospects of these companies, thereby influencing their share prices. Similarly, improvements in earnings, effective cost management, and favourable business strategies may strengthen investor confidence and increase demand for a company's shares.

Share price is adopted in this study as a measure of firm value because it is observable, quantifiable, and directly determined by market transactions. Unlike accounting-based measures, which primarily reflect financial information reported by a company, share price incorporates investors' expectations about future earnings, potential risks, and growth opportunities. It therefore provides a useful basis for examining how profitability relates to the market valuation of quoted consumer goods companies in Nigeria. However, share price may also fluctuate because of market-wide developments and other external factors that are not directly related to a company's financial performance.

Concept of Profitability

Profitability refers to a company's ability to generate earnings from its sales, assets, and shareholders' equity over a specified period. Pertiwi and Chusna (2020) describe profitability in relation to a company's capacity to earn profits from its sales, productive assets, and equity. Similarly, Ali et al. (2021) explain profitability as the ability of a business to generate earnings through the effective management of its financial and operational resources. These perspectives emphasise the importance of profitability in assessing a company's financial performance and its capacity to sustain business activities over time.

Profitability is an important indicator of managerial effectiveness because it shows how efficiently a company converts its available resources and business activities into earnings. According to Jihadi et al. (2021), profitability is associated with efficient asset utilisation and the creation of shareholder value. Reschiwati et al. (2020) also highlight its relevance to assessing a company's financial strength. A consistently profitable company is generally better positioned to finance expansion, meet financial obligations, withstand economic uncertainty, and provide returns to its shareholders. Conversely, persistent losses or declining profit margins may weaken investor confidence and raise concerns about the company's long-term sustainability.

Radja and Artin (2020) identify profitability as an important financial measure for evaluating a company's ability to generate returns from its business operations and invested capital. From an investment perspective, profitability provides useful information to existing and prospective shareholders when assessing the attractiveness of a company's shares. Strong earnings performance may signal effective management and

favourable business prospects, potentially increasing demand for the company's shares and improving its market value. Nevertheless, the relationship between profitability and share price is not always automatic, as investors may also consider the sustainability of earnings, dividend expectations, market risks, and prevailing economic conditions.

Profitability can be measured using several financial ratios, depending on the aspect of performance being examined. Common indicators include return on assets (ROA), return on equity (ROE), Earnings Per Share (EPS) and net profit margin (NPM). ROA measures the earnings generated from a company's assets, ROE assesses the returns earned on shareholders' equity, while NPM indicates the proportion of revenue retained as profit after expenses. Earnings per share (EPS), although more appropriately regarded as an earnings-based performance indicator, also provides useful information about the profit attributable to each ordinary share. Onwughai (2025) discusses the importance of profitability measures in evaluating corporate financial performance. Together, these indicators provide complementary insights into a company's earnings capacity and may help explain variations in the share prices of quoted consumer goods companies.

Concept of Return on Assets (ROA)

Return on assets (ROA) is a financial ratio that measures how effectively a company uses its assets to generate earnings. It indicates the amount of profit earned relative to the resources invested in the company's asset base. Schabek (2020) explains that ROA provides an indication of how efficiently a company employs its assets to produce profits. Similarly, Hargrave (2025) notes that a higher ROA generally reflects greater effectiveness in using assets to generate earnings, whereas a lower ratio may indicate weaker asset utilisation or the need for operational improvements.

ROA is particularly relevant to consumer goods companies because their operations often require substantial investment in production facilities, machinery, warehouses, inventory, distribution networks, and other operating assets. The ability to generate sufficient earnings from these resources is essential for maintaining competitiveness and achieving sustainable growth. A company that generates higher profits from its asset base may demonstrate effective resource allocation, efficient production processes, and sound operational management.

The relationship between ROA and share price can be explained by the information the ratio provides to investors about management's ability to utilise corporate resources productively. An improvement in ROA may signal stronger financial performance and better prospects for future earnings, potentially encouraging investors to purchase the company's shares. Increased demand may, in turn, contribute to a higher share price. However, a high ROA does not necessarily guarantee an increase in share price because market valuation may also depend on investors' expectations, industry conditions, financial risks, and future growth opportunities. Accordingly, this study examines whether ROA has a significant relationship with the share prices of quoted consumer goods companies in Nigeria.

Concept of Return on Equity (ROE)

Return on equity (ROE) measures a company's ability to generate profits from the funds invested by its shareholders. It indicates how effectively management employs shareholders' equity to produce earnings and create value for the owners of the business. Tho et al. (2021) identify ROE as an important indicator of financial performance and the efficiency with which shareholders' funds are utilised. Similarly, Mappadang et al. (2021) describe ROE as a significant profitability measure because it evaluates the return generated on owners' investments.

ROE is particularly important to shareholders because it provides an indication of the earnings generated from their invested capital. A relatively high ROE may suggest that management is using shareholders' funds efficiently to support profitable operations. It may also indicate that the company has the capacity to strengthen its financial position, reinvest in growth opportunities, or provide returns to shareholders through dividends, subject to its financial policies and obligations. Conversely, a declining ROE may raise concerns about weak earnings performance or the inefficient use of equity capital.

For quoted consumer goods companies in Nigeria, ROE can influence investor perceptions by providing information about the returns generated from shareholders' investments. Investors may favour companies that consistently generate satisfactory returns on equity because such performance can indicate effective financial management and the potential for future earnings growth. This may increase demand for their shares and positively influence market valuation. However, ROE should be interpreted carefully because a high ratio may sometimes result from a relatively small equity base or substantial financial leverage rather than improved operating performance alone. Therefore, examining ROE alongside other financial indicators provides a more balanced understanding of its relationship with share price.

Concept of Net Profit Margin (NPM)

Net profit margin (NPM) is a financial ratio that measures the proportion of a company's revenue remaining as profit after deducting relevant expenses, including operating costs, interest, and taxes. It is commonly expressed as a percentage and calculated by dividing net profit by revenue and multiplying the result by 100 (Omodero & Ogisi, 2021).

NPM provides useful information about a company's ability to convert sales into profit. A higher margin generally indicates that a company retains a larger proportion of its revenue as earnings, while a lower margin may reflect rising production costs, high operating expenses, pricing difficulties, or other financial pressures. Shina and John-Akamelu (2024) discuss the relevance of net profit margin to financial analysis and the assessment of business performance. NPM is particularly useful in the consumer goods sector, where profitability may be affected by raw material prices, inventory management, distribution costs, pricing decisions, and competitive pressures.

In Nigeria, quoted consumer goods companies operate in an economic environment characterised by fluctuations in input costs, exchange rates, energy prices, and consumers' purchasing power. These factors may affect both revenue and expenditure, making the effective management of profit margins essential for business sustainability. For example, a company that controls production and distribution costs while maintaining strong sales may achieve a higher NPM, indicating improved cost management and earnings performance. Conversely, declining margins may signal operational challenges or the inability to pass increased costs on to consumers without reducing demand.

NPM may also influence share price through its implications for investors' assessment of corporate performance. A consistently healthy margin can suggest that a company has effective cost-control systems, competitive strengths, and the capacity to generate sustainable earnings. Such information may strengthen investor confidence and support a higher share price. However, investors may be less responsive to an improvement in NPM if it results from temporary cost reductions or other factors unlikely to be sustained. The reliability of reported profits is therefore important when evaluating financial performance. In this regard, high-quality auditing can improve confidence in financial statements by supporting the credibility of reported earnings (Knechel et al., 2021). Consequently, NPM is an important indicator for examining the relationship between profitability and the share prices of quoted consumer goods companies in Nigeria.

Concept of Earnings Per Share (EPS)

Earnings per share (EPS) measures the amount of a company's earnings attributable to each ordinary share. It provides investors with an indication of the profit generated for each share held and is widely used in evaluating corporate performance and investment prospects. Ross et al. (2020) discuss the relevance of earnings information to the assessment of corporate value and investment decisions. Because EPS relates earnings directly to the number of ordinary shares, it enables investors to assess a company's earnings performance on a per-share basis.

EPS is commonly calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

A high or increasing EPS may indicate improved earnings performance and strengthen expectations of future returns. Investors may interpret sustained growth in EPS as evidence that a company is becoming more profitable or generating greater earnings for its shareholders. This perception may increase demand for its shares and contribute to a rise in market price. In contrast, declining or negative EPS may raise concerns about the company's earnings capacity and future prospects.

For quoted consumer goods companies in Nigeria, EPS is relevant because investors can use it to compare earnings performance across companies and assess changes in profitability over time. However, EPS should not be interpreted in isolation. Changes in the number of outstanding shares, exceptional gains or losses, and variations in accounting policies may affect the ratio. Furthermore, a high EPS does not necessarily translate into a high share price because market valuation also reflects growth expectations, perceived risks, dividend policies, and wider market conditions. This study therefore examines whether EPS has a significant effect on the share prices of quoted consumer goods companies in Nigeria.

Concept of Firm Size

Firm size refers to the scale of a company's operations and the extent of its financial and operational resources. It is commonly measured using indicators such as total assets, revenue, number of employees, or market capitalisation, depending on the purpose of the study. Penrose (1959) emphasises the role of a firm's resources and capabilities in shaping its growth and expansion, while Chen et al. (2022) identify firm size as a factor that may influence market power and competitive advantage.

Firm size can affect a company's operational efficiency, access to finance, market presence, and ability to withstand economic challenges. Larger companies may benefit from economies of scale, established distribution networks, stronger brand recognition, and improved access to financial resources. These advantages may enable them to reduce unit costs, expand production, and compete more effectively in the marketplace. In the Nigerian consumer goods sector, larger firms may also have greater capacity to invest in technology, manage supply-chain disruptions, and maintain product availability across different regions.

Despite these potential advantages, an increase in firm size does not always result in better financial performance or higher market valuation. Large organisations may face bureaucratic delays, higher administrative expenses, complex management structures, and difficulties in responding quickly to market changes. Smaller companies, on the other hand, may benefit from greater flexibility and faster decision-making, although they may have limited access to capital and fewer opportunities to exploit economies of scale.

Firm size may influence share price by shaping investors' perceptions of a company's stability, growth potential, and exposure to risk. Investors may regard larger companies as relatively established businesses with greater capacity to withstand market uncertainty. Nevertheless, the effect of size on share price depends on how effectively the company manages its resources and converts them into sustainable earnings. Firm size is therefore included in this study to assess its effect on the share prices of quoted consumer goods companies in Nigeria and to account for differences in scale among the companies examined.

Theoretical Framework

This study is anchored on the Signaling Theory by Spence, (1978), which posits that firms convey quality-related information to the market through observable financial indicators. Profitability metrics like ROA and ROE, NPM and EPS serve as signals of managerial efficiency and the firm's ability to generate value from resources and equity. A higher ROA, ROE, NPM or EPS typically signals strong operational performance, positively influencing investor perception and, consequently, market value.

Empirical Review

Agunloye et al., (2025) examined how a company's size and value affect its profits, focusing on 20 consumer goods companies listed on the Nigerian Stock Exchange in 2023. The study used existing data to carry out the research. The period of study is 10 years from 2014 - 2023. The study used statistical tools of regression for

analysis. The study found that there is strong positive effect of corporate value on profitability whereas firm size has no significant effect on profitability. Signaling Theory underpins this study.

Oktavia and Santosa (2026) investigated the effects of profitability on firm value among 18 non-financial companies listed on Indonesia's LQ-45 Index from 2017 to 2022, including the moderating role of interest rates. Using secondary data and panel regression analysis, the study found that NPM had a negative but insignificant effect on firm value, ROA had a significant negative effect, and ROE had a significant positive effect. Although interest rates had no direct effect on firm value, they moderated the relationship between profitability and firm value.

Bamigboye and Ewuola (2026) analyzed the relationship between tax planning and corporate profitability in publicly listed Nigerian manufacturing firms from 2015 to 2024. Specifically, it investigates the effects of Effective Tax Rate (ETR), Book-Tax Differences (BTD), and Tax-to-Asset Ratio (TAS) on Return on Equity (ROE). Using panel data from 32 firms on the Nigerian Exchange Group (NGX), we applied fixed-effects panel regression analysis, supported by descriptive statistics, correlation matrices, and diagnostic tests. Results indicate that higher ETR is negatively associated with ROE ($\beta = -0.38$, $p < 0.01$), while higher BTD ($\beta = 0.65$, $p < 0.01$) and TAS ($\beta = 0.58$, $p < 0.01$) positively influence ROE. Agency Theory was used in this study.

Chukwuedo et al. (2026) examined the influence of financial ratios on investment decisions in selected Nigerian listed deposit money banks from 2020 to 2024. Using an ex-post facto research design, secondary data from annual reports, descriptive statistics, and ordinary least squares regression, the study found that liquidity, profitability, and debt ratios had statistically insignificant effects on investment decisions across Access Bank, UBA, and Zenith Bank, although the direction of the relationships varied. The study concluded that financial ratios had limited influence on investment decisions and was anchored on Value Maximization Theory.

Fasua (2025) examined the effects of profitability and financial leverage on the market value of 64 listed non-financial firms in Nigeria from 2014 to 2023, using Tobin's Q as a measure of firm value. Employing panel-corrected standard errors regression, the study found that ROA had a positive and significant effect on firm value, while ROE and the debt-to-equity ratio had insignificant effects. Market capitalisation was also insignificant, and the model had limited explanatory power. The study concluded that efficient asset utilisation plays a more important role in enhancing market value than equity returns or financial leverage. The study was anchored on Signaling Theory.

Kusumawati and Atiningsih (2026) examined the effects of profitability and asset management on firm value, with dividend policy as a moderating variable, among Indonesian listed healthcare companies from 2020 to 2024. Using panel regression and Moderated Regression Analysis on 90 firm-year observations, the study found that ROE and fixed asset turnover had significant positive effects on firm value, while ROA and total asset turnover had significant negative effects. Dividend policy strengthened the effects of ROA and total asset turnover, weakened the effect of ROE, and had no significant moderating effect on fixed asset turnover. The study concluded that firm value depends on financial performance and investors' interpretation of dividend signals. It was anchored on Signaling Theory.

Gbulum et al. (2025) examined the effects of firm attributes on the share prices of 10 listed consumer goods companies in Nigeria from 2012 to 2023. Using an ex-post facto research design and secondary data analysed through descriptive statistics, correlation, and random-effects regression, the study found that firm size and firm age had significant positive effects on share price, liquidity had a significant negative effect, while financial leverage had an insignificant positive effect. The study concluded that larger and older firms tend to enjoy higher market valuations due to their established presence, operational efficiency, and stakeholder confidence. The study was anchored on Trade-Off Theory.

Mue et al. (2025) examined the effect of profitability and firm growth on the financial reporting quality of nine listed industrial goods companies in Nigeria from 2014 to 2023. Using an ex-post facto research design, secondary data, and generalized least squares regression, the study measured financial reporting quality using discretionary accruals based on the modified Jones model. The findings revealed that profitability had a

significant positive effect on discretionary accruals, suggesting a relationship between profitability and financial reporting quality. The study was anchored on Opportunistic Theory.

Chibueze et al. (2024) examined the effect of profitability on the firm value of manufacturing companies in Nigeria, using net profit margin (NPM) and earnings per share (EPS) as profitability measures and net assets per share as a proxy for firm value. Using secondary data from annual reports and fixed-effects panel regression, the study found that both NPM and EPS had significant positive effects on firm value. The study concluded that improved profitability enhances the value of manufacturing firms in Nigeria. It was anchored on Shareholders' Wealth Maximization Theory and Growth of the Firm Theory.

Essien et al. (2026) examined the effects of return on equity (ROE) and return on assets (ROA) on stock returns among nine listed manufacturing companies in Nigeria from 2015 to 2025. Using an ex-post facto research design, secondary data, and ordinary least squares regression, the study found that both ROE and ROA had positive but statistically insignificant effects on stock returns. The study concluded that these profitability indicators were insufficient predictors of stock returns and recommended that investors consider other macroeconomic and business factors when making investment decisions. The study was anchored on Free Cash Flow Theory.

Fitriani and Aslam (2026) examined the effects of return on assets (ROA), return on equity (ROE), and net profit margin (NPM) on the firm value of nine technology companies listed on the Indonesia Stock Exchange from 2020 to 2024. Using a quantitative approach and panel data regression, the study found that ROA, ROE, and NPM had no significant individual or joint effects on firm value. The study concluded that profitability was not a significant determinant of technology firms' value during the period, suggesting that factors such as innovation, technological adaptability, and market dynamics may be more influential. The findings contradicted Signaling Theory, which posits that profitability communicates valuable information about a firm's performance and prospects to investors.

Table1.1: Summary of Literature Gaps

S/N	Type of Gap	Summary of the Gap	How the Present Study Addresses the Gap
1	Contextual Gap	Previous studies examined profitability and firm value across different industries and countries. Limited evidence exists on the combined effects of ROA, ROE, NPM, and EPS on the share prices of quoted consumer goods companies in Nigeria.	Focuses specifically on quoted consumer goods companies in Nigeria to provide sector-specific evidence.
2	Variable and Measurement Gap	Previous studies used different measures of firm value, including net assets per share, Tobin's Q, stock returns, and share price. They also examined different combinations of profitability indicators.	Uses share price as the measure of firm value and jointly examines ROA, ROE, NPM, and EPS.
3	Inconsistent Empirical Findings	Existing studies reported mixed results regarding the relationship between profitability and firm value, with positive, negative, significant, and insignificant effects across different studies.	Provides additional empirical evidence to clarify the relationship between the selected profitability indicators and share prices.
4	Control Variable Gap	Although firm size has been identified as a determinant of share price, its influence alongside the selected profitability indicators requires further investigation within the Nigerian consumer goods sector.	Incorporates firm size as a control variable to account for differences in company scale when examining share price.
5	Industry-Specific Gap	Findings from other industries may not adequately reflect the conditions affecting consumer goods companies, which face challenges such as inflation, exchange-rate fluctuations, raw material costs, and changing consumer demand.	Examines quoted consumer goods companies separately, taking account of the distinctive characteristics of the industry.

6	Explanatory Gap	Previous studies differ in their choice of explanatory variables and analytical frameworks, limiting a comprehensive understanding of how profitability indicators and firm size jointly relate to share price.	Examines ROA, ROE, NPM, EPS, and firm size within a single analytical framework.
7	Overall Research Gap	Existing literature has not provided sufficiently consistent, integrated, and sector-specific evidence on the relationship between profitability and the share prices of quoted consumer goods companies in Nigeria.	Integrates the four profitability indicators and firm size into one study to provide further evidence on market valuation in Nigeria's consumer goods industry.

Source: Researcher's synthesis of reviewed empirical studies (2026).

RESEARCH METHODOLOGY

The study adopted an ex post facto research design, as it is appropriate for analyses based on historical data where the researcher has no control over or ability to manipulate the variables of interest. A purposive sampling technique was employed to select firms with complete data return on assets, return on equity, net profit margin, earnings per share, firm size and share price over the period 2014 to 2025.

The population of the study comprised all nineteen (19) consumer goods company listed on the Nigerian Exchange Group as at 2025. However, a sample of sixteen (16) was selected based on the availability and accessibility of relevant data. These consumer goods company include cadbury nigeria plc, campions brew plc, dangote sugar refinery, guinness nig plc, honeywell flour mill plc, international breweries plc, mcnichols plc, multi-trex integrated foods plc, n nig. flour mills plc, nascon allied industries plc, nestle nigeria plc nigerian breweries plc, nigerian enamelware plc, pz cussons nigeria plc, unilever nigeria plc, vitafoam nig plc

Data were obtained through manual extraction from audited annual reports and statutory financial statements of the selected consumer goods company. The analysis of data was conducted using both descriptive and inferential statistical techniques. The descriptive analysis involved measures of central tendency and dispersion, including mean, median, minimum, maximum, and standard deviation. The inferential analysis employed a static panel data approach, a robust econometric technique suitable for examining longitudinal data across multiple entities over time under both fixed and random effects assumptions. This method enables the simultaneous analysis of cross-sectional and time-series variations, thereby providing a more comprehensive understanding of the relationships among the study variables.

Model Specification and Variable Measurement

The panel regression model that captures the effects of profitability on firm value of listed consumer goods in Nigeria is presented below:

$SHP_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 NPM_{it} + \beta_4 EPS + \beta_4 FSIZ_{it}\ \varepsilon_{it}$

Were, NPM – Net Profit Margin

SHP – Share Price

ROA – Returns on Assets

ROE –Returns on Equity

NPM – Net Profit Margin

EPS - Earnings Per Share

FSIZ- Firm Size

β_1 β_3 – Beta coefficient

α – constant

ε – error term

Table 1.2: Measurement of Variables

Variables	Type	Description	Sources
Share Price (SHP)	Dependent variable	Market price of a firm's stock at the end of each year	Igonderigha (2026)
Return on Assets (ROA)	Independent variable	Net Profit after tax/ Total Assets	Sani et al, (2025)
Return on Equity (ROE)	Independent variable	Net Profit after tax/Equity	Oktavia and Santosa (2026)
Net Profit Margin (NPM)	Independent variable	(Net Profit / Sales) × 100	Chinemerem et al. (2025)
Earnings Per Share (EPS)	Independent variable	Profit after tax/Outstanding ordinary shares	Umoh et al (2026)
Firm Size (FSIZ)	Control variable	expressed as the natural log of total assets	Olagunju and Adenle (2022)

Author's compilation (2026)

DATA ANALYSIS AND DISCUSSION

The focus of this chapter is on presenting and empirically interpreting the result of the research work obtained from the model specification carried out in the previous section. In this section, reference is made to the data collected in relation to the study's variables ranging from Share Price, Return on Assets, Return on Equity, Net Profit Margin, Earnings per Share and Firm Size as control variable.

Descriptive statistics

Table 1 presents the result of descriptive statistics of Share Price (SHP), Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Earnings per Share (EPS) and Firm Size (FSIZ) as control variable.

Table 2: Descriptive Statistics (SHP, ROA, ROE, NPM, EPS and FSIZ)

Variables	Mean	Std. Dev	Min	Max	Obs.
SHP	109.58	326.79	0.36	1958	180
ROA	0.0873	0.1079	-0.066	1.038	180
ROE	0.6507	2.2045	-0.097	25.338	180
NPM	2.7012	17.385	-9.834	200.88	180
EPS	1.9291	4.4495	-0.053	34.17	180
FSIZ	7.7635	0.6702	0.6706	9.0562	180

Source: Stata 17 output (2026)

The descriptive statistics for 180 firm-year observations of listed consumer goods companies in Nigeria reveal considerable variation in share price and profitability. Share price (SHP) recorded a mean of 109.58 and a standard deviation of 326.79, indicating substantial differences in market valuation. ROA averaged 8.73%, while ROE and NPM recorded means of 0.6507 and 2.7012, respectively, with high standard deviations reflecting considerable variations in profitability. EPS had a mean of 1.9291, suggesting generally positive earnings per share, although some observations recorded negative values. Firm size (FSIZ) recorded a mean of 7.7635 and a standard deviation of 0.6702, indicating relatively low dispersion compared with the other

variables. Overall, the findings demonstrate substantial differences in share prices and profitability across the sampled firms.

Correlation Matrix

Table 3: Correlation Matrix

Variables	SHP	ROA	ROE	NPM	EPS	FSIZ
SHP	1					
ROA	0.2198	1				
ROE	0.1645	0.2682	1			
NPM	-0.0496	-0.0312	0.0043	1		
EPS	-0.0189	0.6448	0.428	-0.0435	1	
FSIZ	0.2988	0.034	0.1198	-0.1332	-0.0051	1

Source: Stata 17 output (2026)

The correlation matrix indicates that most relationships among the study variables are weak. Share price (SHP) has weak positive correlations with return on assets (ROA = 0.2198), return on equity (ROE = 0.1645), and firm size (FSIZ = 0.2988), but negligible negative correlations with net profit margin (NPM = −0.0496) and earnings per share (EPS = −0.0189). Among the explanatory variables, the strongest positive correlation is between ROA and EPS (0.6448), followed by ROE and EPS (0.4280). The remaining correlations are generally weak or negligible.

Overall, the correlation matrix suggests that severe pairwise multicollinearity may not be a major concern, as no correlation coefficient exceeds 0.80 in absolute terms. However, a variance inflation factor (VIF) test is recommended for further confirmation. The correlations indicate associations only and do not establish causality or statistical significance.

VIF (Multicollinearity) Test

Table 4: Multicollinearity Test

Variable	VIF	1/VIF
EPS	1.96	0.50959
ROA	1.72	0.58267
ROE	1.25	0.8001
FSIZ	1.04	0.9446
NPM	1.02	0.96049
Mean VIF	1.4	0.97838

Source: Stata 17 Output (2026)

Table 4 presents the Variance Inflation Factor (VIF) test used to assess the presence of multicollinearity among the explanatory variables in the regression model. The results show that EPS has the highest VIF of 1.96, followed by ROA (1.72), ROE (1.25), FSIZ (1.04), and NPM (1.02). The mean VIF is 1.40, which is considerably below the commonly accepted threshold of 5. The tolerance values (1/VIF) also range from approximately 0.5096 to 0.9605, all above the conventional minimum threshold of 0.10. These results indicate that the explanatory variables do not exhibit problematic multicollinearity.

Normality of Residual

An assumption of classical ordinary least square regression is normality of the residual. The Jacque Bera test conducted for this regression model shows a p-value of 0.000 which is less than 5% indicating that the residual is not normally distributed.

Table 5 Normality test of data

MODEL	Variables	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
SHP	Residual	180	0	0.0001	.	0

Source: Skewness/Kurtosis (Jacque Bera) test for Normality result using STATA 17 Output 2026

Heteroskedasticity

Table 6 presents the results of the Breusch–Pagan/Cook–Weisberg test and the Cameron–Trivedi decomposition test to determine whether heteroskedasticity exists in the regression model, with share price (SHP) as the dependent variable.

The Breusch–Pagan/Cook–Weisberg test reports a chi-square statistic of 232.85 with a probability value of 0.0000. Since the p-value is below the 5% significance level (0.05), the null hypothesis of constant error variance is rejected. This indicates the presence of heteroskedasticity, meaning that the variance of the regression error terms is not constant across observations. Similarly, the Cameron–Trivedi decomposition test produces a chi-square statistic of 139.32 with a probability value of 0.0000. This result also indicates statistically significant heteroskedasticity, reinforcing the conclusion that the error variance is not constant in the model.

Table 6 Test for heteroskedasticity

Breusch-Pagan/ Cook-Weisberg test		Cameron & Trivedi's decomposition	
	SHP		SHP
chi2	232.85	chi2	139.32
Prob > chi2	0	Prob > chi2	0

Stata output, 2024

Hausman specification test

Because the data have a panel structure, both Fixed Effects (FE) and Random Effects (RE) models were estimated, and the Hausman specification test was used to identify the more suitable model for each dependent variable. As shown in Table 7, the test produced a Chi-squared statistic of 11.46 with a p-value of 0.0429. Since this p-value is below conventional significance thresholds, it indicates no statistically significant divergence between the FE and RE coefficient estimates, implying that the Fixed Effects model is the statistically preferred specification.

However, given the earlier diagnostic findings of heteroskedasticity and non-normal residuals, robust regression techniques were required to ensure valid inference regardless of which model was chosen. In light of this, the study proceeds with the Fixed Effect model estimated using robust standard errors, both to correct for these econometric irregularities and to preserve consistency and comparability across the reported results.

Table 7 Hausman specification Test

	SHP
chi2	11.46
Prob > chi2	0.0429

Stata output, 2026

Regression Results

The multiple regression, which captures the effect of audit quality on the financial performance of quoted consumer goods companies in Nigeria, was analysed using Robust Regression These was used because

heteroskedasticity and non-normality of the data between the variables. The regression results are as follows:

Table 8: Robust Regression Result (PCSEs)

Variables	Coefficients	Std. Err.	Z-statistic	P-value
Constant	-944.83	84.4	-11.19	0
ROA	1158.4	12.458	3.88	0
ROE	26.162	1.4729	2.1	0.036
NPM	-0.3488	0.3851	-0.91	0.365
EPS	-25.018	5.8059	-4.31	0
FSIZ	126.92	11.736	10.81	0
R-Squared				19.83
F-Statistic				201.6
P-sig.)				0

Source: Stata 17 output (2026)

Table 8 presents the results of the Panel-Corrected Standard Errors (PCSEs) regression used to examine the effect of profitability on firm value, measured by share price (SHP), among listed consumer goods companies in Nigeria. The results show the direction, magnitude, and statistical significance of the relationships between share price and the explanatory variables: return on assets (ROA), return on equity (ROE), net profit margin (NPM), earnings per share (EPS), and firm size (FSIZ).

Return on Assets (ROA): ROA has a positive coefficient of 1,158.4, with a reported p-value of 0.000, indicating a statistically significant positive relationship with share price at the 1% significance level. This suggests that an increase in ROA is associated with an increase in share price, holding other variables constant. The result implies that investors may place considerable value on companies that utilise their assets efficiently to generate profits. Therefore, improved asset profitability is associated with higher market valuation among the sampled companies.

Return on Equity (ROE): ROE has a positive coefficient of 26.162 and a p-value of 0.036. Since the p-value is below 0.05, the relationship is statistically significant at the 5% level. This indicates that higher returns on shareholders' equity are associated with higher share prices, all else being equal. The finding suggests that the market may respond favourably to companies that generate stronger returns on shareholders' investments. However, the result establishes an association rather than causation.

Net Profit Margin (NPM): NPM has a negative coefficient of −0.3488 and a p-value of 0.365. Since the p-value exceeds 0.05, the relationship is not statistically significant at the conventional significance levels. Although the negative coefficient suggests an inverse association between net profit margin and share price, there is insufficient statistical evidence to conclude that NPM has a significant effect on firm value in the sample. This may indicate that net profit margin, considered independently of other factors, does not consistently explain variations in share price among the sampled companies.

Earnings Per Share (EPS): EPS has a negative coefficient of −25.018 and a p-value of 0.000, indicating a statistically significant negative relationship with share price at the 1% significance level. This result suggests that, holding the other variables constant, higher EPS is associated with lower share prices in the estimated model. The negative sign is contrary to the commonly expected positive relationship between earnings per share and market valuation. Possible explanations include the influence of other correlated profitability measures, differences in share structures, unusual observations, or model specification. The finding should therefore be interpreted cautiously and investigated further before drawing substantive conclusions.

Firm Size (FSIZ): Firm size has a positive coefficient of 126.92 and a p-value of 0.000, indicating a statistically significant positive relationship with share price at the 1% significance level. This suggests that larger companies tend to have higher share prices, holding other variables constant. Larger firms may benefit

from stronger market presence, greater operational capacity, established brands, and investor confidence. However, the interpretation of the coefficient depends on how firm size was measured, particularly whether it represents the natural logarithm of total assets.

Constant: The constant is −944.83, with a p-value of 0.000, indicating statistical significance. It represents the estimated share price when all explanatory variables equal zero. Since this condition may not be economically meaningful for the sampled companies, the constant has limited substantive interpretation.

Model Evaluation

The reported R-squared value of 19.83% indicates that the model explains approximately 19.83% of the observed variation in share price. The remaining 80.17% is associated with factors not captured by the model, random variation, and other influences on share price.

The reported F-statistic is 201.6, with a p-value of 0.000. This indicates that the explanatory variables are jointly statistically significant under the reported model test. Collectively, ROA, ROE, NPM, EPS, and FSIZ provide statistically significant explanatory information about share price, although NPM is not individually significant.

DISCUSSION OF THE FINDINGS

The findings indicate that return on assets (ROA) and return on equity (ROE) have positive and statistically significant relationships with share price, suggesting that the efficient utilisation of assets and shareholders' funds may improve investors' assessment of listed consumer goods companies in Nigeria. The ROA result agrees with Ayanwole and Atolagbe (2026), who reported a positive and significant relationship between ROA and share price, while the ROE result is consistent with Adeyemi, Ajagun, and Arowolo (2024), who found a positive and significant relationship between ROE and firm value.

Net profit margin (NPM) has a negative but statistically insignificant relationship with share price, indicating that changes in profit margin do not significantly explain share-price variations in the sampled firms. This differs from Uzakah and Bingilar (2025), who found a positive and significant relationship between NPM and stock price among selected listed consumer goods companies in Nigeria. The difference may reflect variations in sample periods, model specifications, and company-specific market conditions.

Earnings per share (EPS) has a negative and statistically significant relationship with share price, contrary to the positive and significant EPS relationship reported by Tirimisiyu et al. (2025) in a reported panel model. This unexpected result requires further investigation, including verification of the regression output and consideration of possible differences in market expectations, share-price movements, and model specification.

Finally, firm size (FSIZ) has a positive and statistically significant relationship with share price, supporting Gbulum et al. (2025), who found that firm size positively and significantly influenced the share prices of listed consumer goods companies in Nigeria. This suggests that larger firms may benefit from greater market visibility, stronger resources, and investor confidence.

Overall, the findings show that profitability indicators does affect share price uniformly. ROA, ROE, and firm size demonstrate positive significant relationships, while NPM is negative and insignificant and EPS is negative and significant.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

This study examined the effect of profitability on firm value, measured by share price, among quoted consumer goods companies in Nigeria. Profitability was assessed using return on assets (ROA), return on equity (ROE), net profit margin (NPM), and earnings per share (EPS), while firm size (FSIZ) was included as

a control variable. The study analysed 180 firm-year observations using the Panel-Corrected Standard Errors (PCSE) estimation technique.

The findings are summarised as follows:

1. ROA had a positive and statistically significant relationship with share price. This suggests that efficient utilisation of company assets to generate profits is associated with higher share prices.

2. ROE had a positive and statistically significant relationship with share price, indicating that the ability of firms to generate returns from shareholders' investments is relevant to market valuation.

3. NPM had a negative but statistically insignificant relationship with share price. This implies that changes in net profit margin did not significantly explain variations in the share prices of the sampled companies during the study period.

4. EPS had a negative and statistically significant relationship with share price. This result suggests that the relationship between earnings per share and market valuation may be influenced by factors beyond reported earnings and requires further investigation.

5. Firm size had a positive and statistically significant relationship with share price, suggesting that larger companies may benefit from greater market visibility, resource availability, and investor confidence.

Conclusion

The study examined the effect of profitability on firm value, measured by share price, among quoted consumer goods companies in Nigeria. Specifically, it assessed the effects of return on assets (ROA), return on equity (ROE), net profit margin (NPM), and earnings per share (EPS) on share price, while controlling for firm size (FSIZ). Based on the empirical findings, the following conclusions are drawn in line with the specific objectives of the study.

First, the study found that return on assets (ROA) has a positive and statistically significant relationship with share price. This indicates that the efficient utilisation of company assets to generate profits is associated with higher market valuation. Therefore, companies that improve asset productivity and operational efficiency may strengthen investor confidence and enhance their share prices.

Second, the findings revealed that return on equity (ROE) has a positive and statistically significant relationship with share price. This suggests that the ability of quoted consumer goods companies to generate returns from shareholders' investments is relevant to how investors assess their market value. The study therefore concludes that effective management of shareholders' funds and sustainable returns are important considerations in enhancing share-price performance.

Third, the study established that net profit margin (NPM) has a negative but statistically insignificant relationship with share price. This implies that variations in the proportion of revenue retained as net profit did not significantly explain share-price movements among the sampled companies. Consequently, profit margins alone may not adequately account for changes in market valuation, particularly where investors also consider growth expectations, market conditions, and other financial indicators.

Fourth, the results showed that earnings per share (EPS) have a negative and statistically significant relationship with share price. This finding differs from the conventional expectation that higher earnings per share should be associated with higher share prices. It suggests that the relationship between reported earnings and market valuation may be influenced by other factors.

Finally, the study found that firm size (FSIZ), included as a control variable, has a positive and statistically significant relationship with share price. This indicates that larger companies may benefit from stronger market visibility, greater operational capacity, and investor confidence. Nevertheless, firm size should be accompanied by efficient resource utilisation and sustainable financial performance to support market value.

Recommendations

Based on the findings and conclusions, the following recommendations are proposed:

1. Management of quoted consumer goods companies should strengthen asset management practices by reducing idle assets, improving production efficiency, and ensuring that investments generate adequate returns. This recommendation follows the positive and significant relationship between ROA and share price.

2. Companies should adopt sound financial and investment strategies that improve returns on shareholders' equity while maintaining an appropriate balance between profitability, business expansion, and financial risk.

3. Management should review production costs, operating expenses, pricing strategies, and supply-chain efficiency to improve net profit margins. Although NPM was statistically insignificant, sustained cost control remains important for financial stability and long-term competitiveness.

4. Companies should provide transparent earnings information and communicate their financial performance and growth prospects effectively to investors.

5. Promote sustainable business expansion: Companies should pursue carefully evaluated expansion strategies, invest in productive capacity, and strengthen market presence. However, expansion should be guided by investment appraisal and efficient resource allocation rather than company size alone.

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