

Profitability Ratio, Dividend Payout Ratio and Stock Market Prices of Listed Deposit Money Banks in Nigeria

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ABSTRACT

This study examined profitability ratio, dividend payout ratio and stock market prices of listed deposit money banks in Nigeria, focusing specifically on the effect of profitability ratio, the effect of dividend payout ratio, and their combined effect on stock market prices. The broad objective was to investigate the extent to which profitability ratio and dividend payout ratio explain movements in the stock market prices of listed deposit money banks in Nigeria. Specifically, the study investigated the effect of profitability ratio on stock market prices, determined the impact of dividend payout ratio on stock market prices, and ascertained the combined influence of profitability ratio and dividend payout ratio on stock market prices of deposit money banks in Nigeria.

The study was anchored on Signalling Theory, complemented by Dividend Relevance Theory and Agency Theory. An ex post facto research design was adopted, relying entirely on secondary data extracted from the audited annual reports and financial statements of ten purposively selected deposit money banks listed on the Nigerian Exchange Group (NGX), covering the ten-year period 2015 to 2024 and yielding 100 bank-year panel observations. Data were analysed using descriptive statistics, correlation analysis, cross-sectional dependence and unit root tests, and panel data regression (Fixed Effects and Random Effects models, selected using the Hausman specification test), complemented by multiple regression for the combined model, at the 5% level of significance, with bank size, bank age and leverage included as control variables.

Profitability ratio had a positive and statistically significant effect on stock market prices ($\beta = 7.706$, $R^2 = 0.807$, $F = 27.637$, $p = 0.000$). Dividend payout ratio also exhibited a positive and statistically significant effect ($\beta = 0.182$, $R^2 = 0.780$, $F = 23.733$, $p = 0.000$). In the combined model, both profitability ratio ($\beta = 2.231$, $p = 0.048$) and dividend payout ratio ($\beta = 2.376$, $p = 0.000$) retained positive and significant effects on stock market prices ($R^2 = 0.648$, $F = 34.544$, $p = 0.000$), with dividend payout ratio exerting the more decisive and consistently significant influence of the two. Consequently, all three null hypotheses were rejected.

The study recommends that deposit money banks strengthen profitability by improving asset quality and controlling operating costs, adopt a stable and credible dividend payout policy, pursue growth in total assets driven by quality risk assets rather than size expansion for its own sake, strengthen corporate governance to compensate for shorter operating history, and manage leverage prudently within regulatory capital limits. The study concludes that profitability and dividend payout policy are fundamental and complementary drivers of shareholder value, jointly shaping how the market prices the shares of listed deposit money banks in Nigeria.

Keywords: Profitability Ratio, Dividend Payout Ratio, Stock Market Prices, Deposit Money Banks, Signalling Theory.

INTRODUCTION

Every country seeks to ensure that its stock market performs effectively because of the crucial role it plays in economic development, serving as a platform for mobilising savings, allocating capital efficiently, and providing liquidity for investors. In developing economies such as Nigeria, the stock market is expected to support economic growth by channelling funds from surplus to deficit units, although its performance is often shaped by financial and macroeconomic factors that make it necessary to continuously examine the determinants of stock market prices (Munir et al., 2026; Yahaya, 2026).

Profitability ratio is a key financial indicator used to assess how efficiently a firm generates profit from its assets, equity or revenue. In the banking sector, measures such as return on assets and return on equity are particularly important because banks play a central role in financial intermediation and economic stability, and their profitability is shaped by inflation, exchange rate volatility, regulatory policy and interest rate movements, all of which may affect investor perception and stock valuation (Alshehadeh et al., 2025; Daliri et al., 2025). Dividend payout ratio, which represents the proportion of earnings distributed to shareholders, is a further important signal of financial strength; investors tend to respond positively to consistent dividend payments, even as banks must balance payouts with the retained earnings needed to meet regulatory capital requirements (Mahirun et al., 2023; Olubiyi, 2023; Kumar & Sinha, 2024).

The Nigerian Exchange Group (NGX) serves as the main platform for trading the shares of listed companies, including deposit money banks, and various regulatory and institutional policies have been introduced by the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC) to promote transparency, investor protection and efficient market operations (Adegoke et al., 2025; Ayadi & Williams, 2023). Despite these efforts, the market continues to experience fluctuations arising from internal and external economic pressures (Ayeni & Fanibuyan, 2022; Okegbemi, 2024), including inflationary pressure, foreign exchange instability, political uncertainty and shocks such as the COVID-19 pandemic, all of which have contributed to inconsistent stock returns and heightened the importance of understanding what drives stock market performance (Olaoluwa et al., 2025; Ajayi et al., 2025; Saada, 2025).

Despite the recognised importance of profitability ratio and dividend payout ratio as determinants of stock market prices, empirical evidence on their strength and direction of effect remains inconsistent. While some studies report that higher profitability drives higher investor confidence and stock prices, others find that market reactions do not always align with reported profitability, owing to information asymmetry and market inefficiency. Similarly, while dividend theory suggests that higher payouts signal financial strength and attract investors, Nigerian banks must reconcile payout decisions with capital adequacy requirements, leaving the true effect of dividend policy on stock prices unclear. Furthermore, most existing studies examine profitability and dividend payout independently rather than jointly, and much of the available Nigerian evidence pre-dates the 2023 and 2024 regulatory reforms, including the CBN recapitalisation directive, leaving a gap that this study addresses by jointly examining the effect of profitability ratio and dividend payout ratio on stock market prices of listed deposit money banks in Nigeria.

Research Questions

- i. To what extent does profitability ratio affect stock market prices of Deposit Money Banks in Nigeria?
- ii. What is the effect of dividend payout ratio on stock market prices of Deposit Money Banks in Nigeria?
- iii. How does profitability ratio and dividend payout ratio jointly influence the stock market prices of Deposit Money Banks in Nigeria?

Objectives of the Study

The broad objective of this study is to investigate the effect of profitability ratio and dividend payout ratio on stock market prices of Deposit Money Banks in Nigeria. The specific objectives are to:

- i. investigate the effect of profitability ratio on stock market prices of Deposit Money Banks in Nigeria;
- ii. determine the impact of dividend payout ratio on stock market prices of Deposit Money Banks in Nigeria; and
- iii. ascertain the combined influence of profitability ratio and dividend payout ratio on stock market prices of Deposit Money Banks in Nigeria.

Research Hypotheses

H01: Profitability ratio has no significant impact on stock market prices of Deposit Money Banks in Nigeria.

H02: Dividend payout ratio has no significant impact on stock market prices of Deposit Money Banks in Nigeria.

H03: Profitability ratio and dividend payout ratio have no significant joint influence on stock market prices of Deposit Money Banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

Stock Market Prices. Stock market prices refer to the prevailing value at which the shares of a publicly quoted company are bought and sold on a stock exchange at a given point in time, representing the monetary worth investors assign to a firm's equity based on market demand and supply forces (Munir et al., 2026). In this study, stock market prices are examined as the equilibrium price of a bank's shares determined through trading on the Nigerian Exchange Group (NGX), reflecting investor confidence in the bank's stability, profitability and growth prospects and incorporating both tangible outcomes such as earnings and dividends and intangible factors such as governance quality and market expectations (Yahaya, 2026).

Profitability Ratio. Profitability ratio refers to financial performance indicators used to measure a firm's ability to generate earnings relative to its assets, equity or revenue, showing how efficiently a company converts its investments and operations into profit (Yahaya, 2025). In the banking sector, profitability ratios such as return on assets and return on equity are crucial because they reflect the ability of banks to generate sustainable earnings from lending and investment activities, which directly influences investor confidence, dividend payments and, ultimately, stock market prices (Farouk et al., 2022). In this study, profitability ratio is measured by return on equity, computed as net profit after tax divided by shareholders' equity.

Dividend Payout Ratio. Dividend payout ratio refers to the proportion of a company's net earnings distributed to shareholders as cash dividends, expressed as a percentage of net profit after tax, and is used to evaluate a firm's dividend policy and its commitment to rewarding shareholders (Okonkwo et al., 2025). It is calculated by dividing total dividends paid by net income for the period (Ojogbo et al., 2022), and serves as a signal to investors about a firm's financial health, stability and future growth prospects; in the banking sector, this decision is particularly sensitive because banks must balance shareholder returns against regulatory capital requirements and expansion needs (Adeyemi et al., 2022).

THEORETICAL FRAMEWORK

The theoretical framework of this study draws on five theories that collectively explain the relationship between profitability ratio, dividend payout ratio and stock market prices, namely Agency Theory, Signalling Theory, Dividend Relevance Theory, Random Walk Theory and Bird-in-Hand Theory. Each theory offers a distinct lens on how firms' profitability and dividend decisions interact with capital market outcomes.

This study is anchored on Signalling Theory, propounded by Spence (1973), which holds that in a market characterised by information asymmetry between managers and outside investors, firms use observable financial actions, such as reported profitability and dividend payments, as costly and credible signals of underlying firm quality that investors use to update their valuation of the firm's shares. The theory is directly relevant to this study because both profitability ratio and dividend payout ratio are fundamentally signals: a high return on equity signals superior earnings capacity and competent management, while an increased dividend payout signals confidence in sustained future earnings, and both are expected to translate into higher stock prices, particularly in an emerging market such as Nigeria where retail investors rely heavily on published financial signals rather than complete internal information. This proposition has been supported in recent Nigerian studies, including Nwosu and Orji (2020), Akinlo and Apanisile (2021), Musa et al. (2022), Eze and Nwosu (2023) and Oladele and Adeyemi (2024), all of which found that profitability and dividend signals significantly and positively influenced share price behaviour.

Signalling Theory is complemented in this study by Dividend Relevance Theory, propounded by Lintner (1956) and later formalised by Gordon, which holds that dividend policy is not a neutral financing decision but a direct determinant of firm value because investors regard dividends as a less risky and more certain return than uncertain future capital gains, so that firms with higher and more consistent payout ratios command higher stock prices; this view has found empirical support in studies such as Ogbulu and Emeni (2020), Chukwu et al. (2021), Ogunleye and Taiwo (2022), Ibrahim and Kabiru (2023) and Abdullahi and Yusuf (2024). It is further complemented by Agency Theory, which holds that dividend payments and strong profitability performance reduce the agency costs arising from the divergence of interest between shareholders and managers by limiting the free cash flow available for managerial discretion and by signalling efficient deployment of shareholders' funds, a mechanism the market rewards with higher share valuations, consistent with the position of Okoye et al. (2020) and Ekwe and Idibia (2022).

EMPIRICAL REVIEW

Profitability Ratio and Stock Market Prices

Balogun et al. (2026) found that firms with higher return on assets, reflecting stronger profitability ratios, consistently commanded higher equity valuations on the Nigerian Exchange Group. Apete and Ogbotor (2026), studying Nigerian banks, found that return on equity was the most closely watched financial indicator by investors and was significantly and positively associated with share price changes, while Osakwe et al. (2026) found that deposit money banks with consistently higher return on equity, driven by sound credit management, attracted stronger investor interest and commanded higher share price valuations. Omeje et al. (2025) found that return on assets and book value positively and significantly predicted the market share price of listed deposit money banks, consistent with Signalling Theory, while Fasua (2025) and Okorie et al. (2025) similarly found that firms whose profitability ratios exceeded sector averages were rewarded with higher share prices. In contrast, Akpotor et al. (2024) found a negative and insignificant relationship between profitability measures and stock returns of Nigerian deposit money banks, suggesting that the direction and strength of the profitability-price relationship remain contested and context-dependent in the Nigerian literature.

Dividend Payout Ratio and Stock Market Prices

Balogun et al. (2026) found that dividend payout ratio had a positive and statistically significant effect on the financial performance and stock market attractiveness of listed Nigerian firms, while Efenyumi and Nworie (2025) found that dividend payout ratio had a positive and significant effect on the stock market prices of sampled deposit money banks, particularly where payout decisions were managed alongside tax planning. Ofulue et al. (2025) and Obayagbona and Akinuli (2025) similarly found that firms maintaining higher dividend payout ratios consistently attracted greater investor interest and commanded stronger equity valuations, consistent with the predictions of Dividend Relevance Theory and Bird-in-Hand Theory, while Oniyama et al. (2025) found that dividend payout ratio showed a positive directional relationship with market share price among listed industrial goods firms, and Munir et al. (2025) confirmed that dividend

payout ratio had a positive and statistically significant effect on the stock prices of Nigerian deposit money banks after controlling for earnings per share and return on equity.

A recurring gap in this literature is that most prior studies, including Edet et al. (2023) and Ojogbo et al. (2022), examined profitability and dividend payout as separate and independent inquiries rather than within a single unified model, risking omitted variable bias, while other studies, such as Bosun-Fakunle and Olowookere (2024) and Kayode et al. (2022), relied on pooled estimates that suppress bank-specific heterogeneity, or used inconsistent proxies for dividend policy without adequate control variables, as observed by Nworie et al. (2024) and Aroh et al. (2021). This study addresses these gaps by jointly examining profitability ratio and dividend payout ratio, alongside bank size, bank age and leverage as control variables, within a single panel data framework covering the most recent regulatory period in the Nigerian banking sector.

METHODOLOGY

This study adopted the ex post facto research design, relying entirely on secondary data extracted from the audited annual reports and financial statements of sampled deposit money banks, since the variables of interest, profitability ratio, dividend payout ratio and stock market price, are historical financial and market outcomes that had already occurred and could not be manipulated by the researcher. The population of the study comprised all twenty-four deposit money banks licensed by the Central Bank of Nigeria. Using a purposive (judgmental) sampling technique, applied on the basis of continuous listing and active trading on the Nigerian Exchange Group (NGX) throughout the study period, availability of complete audited financial statements, and a significant share of banking-sector market capitalisation, ten deposit money banks were selected for the study, as presented in Table 1.

Table 1: Sample of the Study

S/N	Sampled Deposit Money Banks
1	Access Bank Plc
2	Zenith Bank Plc
3	Guaranty Trust Bank Plc / GTCO Plc
4	United Bank for Africa Plc (UBA)
5	First Bank of Nigeria Limited / FBN Holdings Plc
6	Fidelity Bank Plc
7	First City Monument Bank Plc (FCMB)
8	Stanbic IBTC Bank Plc / Stanbic IBTC Holdings Plc
9	Sterling Bank Plc
10	Wema Bank Plc

Source: Researcher's compilation from NGX (2025).

Data on profitability ratio, dividend payout ratio, bank size, bank age, leverage and stock market price were extracted from the audited annual reports of the ten sampled banks for the ten-year period 2015 to 2024, supplemented by the NGX Fact Book and CBN statistical publications, giving a balanced panel of 100 bank-year observations. Data were analysed using descriptive statistics (mean, median, maximum, minimum, standard deviation, skewness and kurtosis) and correlation analysis, while panel data regression served as the primary inferential technique for the first two objectives, with the Hausman specification test used to select between the Fixed Effects Model (FEM) and Random Effects Model (REM); where the Hausman null was rejected ($p < 0.05$), the Fixed Effects Model was preferred. Prior to estimation, cross-sectional

dependence tests (Breusch-Pagan LM, Pesaran scaled LM, bias-corrected scaled LM and Pesaran CD) and the Im-Pesaran-Shin panel unit root test were conducted as diagnostic checks. For the third objective, examining the combined effect of profitability ratio and dividend payout ratio, multiple regression analysis was employed. All analyses were performed using E-Views, with statistical significance assessed at the 5 percent level.

Stock market price (SMP), measured by the annual closing share price on the NGX, served as the dependent variable. Profitability ratio (PROF), measured by return on equity (net profit after tax divided by shareholders' equity), and dividend payout ratio (DPO), measured by dividend per share divided by earnings per share, served as the independent variables of interest, while bank size (natural logarithm of total assets), bank age (years since incorporation) and leverage (debt-to-equity ratio) served as control variables. Following the framework of Edem et al. (2018) and Nadyayani and Suarjaya (2021), the study estimated the following models:

$$\text{Model I: } \text{SMP}_{it} = \beta_0 + \beta_1 \text{PROF}_{it} + \beta_2 \text{BSZ}_{it} + \beta_3 \text{BAGE}_{it} + \beta_4 \text{LEV}_{it} + \varepsilon_{it} \dots\dots\dots (1)$$

$$\text{Model II: } \text{SMP}_{it} = \beta_0 + \beta_1 \text{DPO}_{it} + \beta_2 \text{BSZ}_{it} + \beta_3 \text{BAGE}_{it} + \beta_4 \text{LEV}_{it} + \varepsilon_{it} \dots\dots\dots (2)$$

$$\text{Model III: } \text{SMP}_{it} = \beta_0 + \beta_1 \text{PROF}_{it} + \beta_2 \text{DPO}_{it} + \beta_3 \text{BSZ}_{it} + \beta_4 \text{BAGE}_{it} + \beta_5 \text{LEV}_{it} + \varepsilon_{it} \dots\dots\dots (3)$$

Where SMP = Stock Market Price; PROF = Profitability Ratio (ROE); DPO = Dividend Payout Ratio; BSZ = Bank Size; BAGE = Bank Age; LEV = Leverage; β_0 = constant; β_1 – β_5 = coefficients of the explanatory variables; ε = error term; and subscripts *i* and *t* denote bank and year respectively. In line with theory and prior empirical evidence, profitability ratio, dividend payout ratio, bank size and bank age were each expected to bear a positive sign, while leverage was expected to bear a negative sign.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 presents the descriptive statistics for the study variables across the sampled deposit money banks over the study period. Stock market price recorded a mean of ₦1.280 against a standard deviation of 1.504, with a strongly positive skew (1.616) and a leptokurtic distribution (kurtosis = 6.039), indicating that a small number of higher-priced bank shares pull the distribution to the right while most banks cluster at the lower end. Profitability ratio averaged 29.684%, with a median of 28.950% close to the mean and a mildly platykurtic, near-symmetric distribution. Dividend payout ratio averaged 14.987% against a considerably lower median of 8.925%, confirming positive skewness (1.244) and reflecting that most banks retain the bulk of their earnings while a handful of generous payers pull the average upward. Bank size, proxied by the log of total assets, was the most symmetrically distributed variable (skewness = 0.006), bank age averaged 52.400 years with a positively skewed distribution reflecting a mix of young and long-established banks, and leverage averaged 3.809 times with a mildly leftward skew and the lowest relative volatility among the ratio variables.

Table 2: Descriptive Statistics

Statistic	SMP	PROF	DPO	BSZ	BAGE	LEV
Mean	1.280	29.684	14.987	7.898	52.400	3.809
Median	0.575	28.950	8.925	7.956	37.000	3.844
Maximum	8.030	66.070	69.650	10.091	130.000	4.680
Minimum	1.030	9.100	0.750	5.785	25.000	1.910
Std. Dev.	1.504	13.207	15.408	1.029	29.874	0.526

Skewness	1.616	0.518	1.244	0.006	1.342	-0.586
Kurtosis	6.039	2.532	3.853	2.385	3.913	3.506

Source: Researcher's computation, 2026. Observations = 100 (10 banks × 10 years, 2015–2024).

Test of Hypotheses

Hypothesis One: H01 — Profitability ratio has no significant impact on stock market prices of Deposit Money Banks in Nigeria.

The Hausman test statistic of 8.431 was significant at the 1 percent level, leading to the adoption of the Fixed Effects Model. As shown in Table 3, profitability ratio had a positive and statistically significant effect on stock market prices ($\beta = 7.706$, $p = 0.001$): holding other factors constant, a 1 percent increase in profitability ratio raised stock market price by ₦7.706 per share. Bank age also had a significant positive effect ($\beta = 9.365$, $p = 0.045$) and leverage a significant negative effect ($\beta = -1.726$, $p = 0.000$), while bank size, though positively signed, was not significant ($p = 0.325$). The model explained 80.7% of the variation in stock market price ($R^2 = 0.807$; $F = 27.637$, $p = 0.000$). The null hypothesis is therefore rejected: profitability ratio has a positive and statistically significant effect on the stock market prices of deposit money banks in Nigeria.

Table 3: Effect of Profitability Ratio on Stock Market Prices (Fixed Effects)

Variable	Coefficient	Prob.
PROF	7.706***	0.001
BSZ	9.178	0.325
BAGE	9.365**	0.045
LEV	-1.726***	0.000
$R^2 = 0.807$ Adj. $R^2 = 0.778$ $F = 27.637^{***}$ (0.000) Hausman = 8.431*** (0.001)		

Source: Researcher's computation, 2026. Note: *** and ** denote significance at 1% and 5% respectively.

Hypothesis Two: H02 — Dividend payout ratio has no significant impact on stock market prices of Deposit Money Banks in Nigeria.

The Hausman test statistic of 21.632 was significant at the 1 percent level, leading again to the adoption of the Fixed Effects Model. As shown in Table 4, dividend payout ratio had a positive and statistically significant effect on stock market prices ($\beta = 0.182$, $p = 0.034$): holding other factors constant, a 1 percent increase in dividend payout ratio raised stock market price by ₦0.182 per share. Bank size also had a significant positive effect ($\beta = 13.935$, $p = 0.044$) and leverage a significant negative effect ($\beta = -1.032$, $p = 0.005$), while bank age was not significant ($p = 0.483$). The model explained 78.0% of the variation in stock market price ($R^2 = 0.780$; $F = 23.733$, $p = 0.000$). The null hypothesis is therefore rejected: dividend payout ratio has a positive and statistically significant effect on the stock market prices of deposit money banks in Nigeria.

Table 4: Effect of Dividend Payout Ratio on Stock Market Prices (Fixed Effects)

Variable	Coefficient	Prob.
DPO	0.182**	0.034
BSZ	13.935**	0.044

BAGE	3.979	0.483
LEV	-1.032***	0.005
R ² = 0.780 Adj. R ² = 0.750 F = 23.733*** (0.000) Hausman = 21.632*** (0.000)		

Source: Researcher's computation, 2026. Note: *** and ** denote significance at 1% and 5% respectively.

Hypothesis Three: H03 — Profitability ratio and dividend payout ratio have no significant joint influence on stock market prices of Deposit Money Banks in Nigeria.

Using multiple regression, profitability ratio ($\beta = 2.231$, $p = 0.048$) and dividend payout ratio ($\beta = 2.376$, $p = 0.000$) both retained positive and statistically significant effects on stock market price after controlling for bank size, bank age and leverage, as shown in Table 5. Dividend payout ratio exerted the more decisive and reliable effect of the two, evidenced by its higher significance level and a far larger t-statistic (12.453) than that of profitability ratio (2.215). Bank age also had a significant positive effect ($\beta = 3.137$, $p = 0.000$) and leverage a significant negative effect ($\beta = -1.665$, $p = 0.006$), while bank size was not significant ($p = 0.526$). The joint model explained 64.8% of the variation in stock market price ($R^2 = 0.648$; $F = 34.544$, $p = 0.000$). The null hypothesis is therefore rejected: profitability ratio and dividend payout ratio jointly have a significant effect on the stock market prices of deposit money banks in Nigeria.

Table 5: Combined Effect of Profitability Ratio and Dividend Payout Ratio on Stock Market Prices

Variable	Coefficient	t-Statistic	Prob.
C	-1.018	-0.555	0.580
PROF	2.231**	2.215	0.048
DPO	2.376***	12.453	0.000
BSZ	2.432	0.636	0.526
BAGE	3.137***	4.296	0.000
LEV	-1.665***	-3.645	0.006
R ² = 0.648 Adj. R ² = 0.629 F = 34.544*** (0.000)			

Source: Researcher's computation, 2026. Note: *** and ** denote significance at 1% and 5% respectively.

DISCUSSION OF FINDINGS

The finding that profitability ratio positively and significantly predicts stock market prices ($\beta = 7.706$, $p < 0.01$) confirms that investors reward strong earnings capacity with higher share valuations, consistent with Opuala-Charles and Nwaido (2023), who found a significant relationship between profitability and the stock price behaviour of Nigerian deposit money banks, and with Agbo and Odo (2024), who found that return on equity had a positive and statistically significant impact on the share prices of listed commercial banks in Nigeria using a fixed effect panel regression approach.

The finding that dividend payout ratio positively and significantly predicts stock market prices ($\beta = 0.182$, $p < 0.05$) suggests that a credible dividend policy reduces investor uncertainty about future cash flows and is rewarded with a higher share valuation. This aligns with Oge and Olaoye (2024), who found that dividend-related payout to shareholders had a significant positive impact on the stock prices of listed banks in Nigeria using panel data regression, and with Ajiboye et al. (2024), who found that dividend payout had a positive and significant influence on the market value of listed Nigerian deposit money banks.

The finding that profitability ratio and dividend payout ratio jointly and significantly predict stock market prices, with dividend payout ratio exerting the stronger and more precisely estimated effect, indicates that both signals matter but that the market places somewhat greater weight on realised cash distributions than on reported earnings performance alone. This corroborates Opuala-Charles and Nwaido (2023), who found that a joint set of profitability-related indicators was statistically significant in explaining the stock price behaviour of Nigerian deposit money banks, and Ajiboye et al. (2024), who found that a joint set of dividend policy variables was statistically significant in explaining the market value of listed Nigerian deposit money banks, reinforcing the position that combining profitability and dividend-related indicators offers stronger explanatory power over stock market price than either variable considered alone.

Taken together, the results show that profitability ratio and dividend payout ratio are both positively and significantly associated with stock market prices, alongside a consistently significant negative effect from leverage across all three models. This pattern suggests that, while both signals of firm value matter, strengthening dividend payout policy alongside profitability, and moderating debt reliance, offers the most reliable path to improving the market valuation of deposit money banks in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study concludes that profitability ratio and dividend payout ratio are significant and complementary determinants of stock market prices of listed deposit money banks in Nigeria. Profitability ratio is a fundamental driver of shareholder value, confirming that banks which consistently generate strong earnings are rewarded by the market with higher share valuations, in line with Signalling Theory's position that profitability signals a firm's underlying financial strength to investors. Dividend payout ratio is equally an active signal that shapes how the market values a bank's shares, rather than a residual decision left over after profitability has been determined, and banks that commit to paying out a reasonable share of earnings as dividends are able to strengthen investor confidence and support their stock market valuation. Bank size does not exert a consistent and dependable effect on stock market prices once profitability and dividend payout are accounted for, whereas bank age carries some weight with investors in most specifications, and leverage has a significant negative effect that holds consistently across all models estimated, confirming that excessive reliance on debt financing is a genuine source of risk that the market penalises through lower share valuations.

Recommendations

1. Deposit money banks should strengthen their profitability by improving asset quality, reducing non-performing loans, controlling operating costs and growing both interest and non-interest income streams, since stronger earnings translate directly into higher share prices in the market.
2. Deposit money banks should adopt and maintain a stable and credible dividend payout policy by committing to a consistent percentage of earnings paid out as dividends each year, rather than paying erratic or one-off dividends, so that shareholders can rely on the signal the dividend sends about the bank's financial health.
3. Deposit money banks should pursue growth in total assets through quality risk assets and prudent lending rather than size expansion for its own sake, since asset size alone does not reliably drive share price, and should instead channel that growth toward improving profitability and sustaining dividend payments.
4. Deposit money banks, particularly the younger ones, should compensate for their shorter operating history by strengthening corporate governance, ensuring strict regulatory compliance and improving transparency in financial reporting, so as to build the investor trust that older, more established banks have accumulated over time.

5. Deposit money banks should manage their leverage carefully by maintaining an optimal capital structure, keeping debt levels within limits that do not strain their ability to service interest obligations, and adhering strictly to the capital adequacy requirements set by the Central Bank of Nigeria, so as to reduce the risk premium investors attach to their shares.

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