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CORPORATE PROFITABILITY AND SHARE PRICE VOLATILITY OF LISTED NON-FINANCIAL COMPANIES IN NIGERIA

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Abstract

This research investigated the impact of corporate profitability on the stock price volatility of listed firms in Nigeria and integrated market capitalization as a control variable. Return on Assets, Return on Equity and Earnings Per Share were used as profitability measures. Ex post facto research design was used, with the sample being derived from a data from 80 firms drawn from the ten sectors in Nigerian Exchange Group for a specified period. The secondary data were pooled to take care of missing observation and robust estimation. The empirical result demonstrated that Return on Assets, Return on Equity and Earnings Per Share have no statistically significant impact on share price volatility. The results imply that none of the profitability measures have strong influences on stock price movements in Nigerian market, which may be attributed to the inefficiencies in the Nigerian market, investors are not reliable on accounting information and that fundamental trade behavior are not significant in the market. Market capitalization has a positive and significant impact on stock price. This indicates that firm size has significant impacts on stock price, which affects the stability of stock prices and investors' behavior, as large sized firms have better stock market profile, more trades, more activities in the stock market and a higher institutional investment presence compared to small firms thus more stable stocks. In conclusion, size is more significant than profitability ratios in impacting the stock price in Nigeria. Increased transparency, enhancing corporate visibility and further research by including more market based variables would have enhanced understanding of the price volatility of emerging market companies.

Keywords: Corporate profitability, share price volatility, Return on Assets, Return on Equity, Earnings Per Share, Market capitalization.

1.1 INTRODUCTION

There is increasing research interest into the relationship between corporate profitability and stock price volatility, especially as a result of volatile financial markets and the need for well-informed investment decision-making. Stock price volatility, a measure of stock prices variation around its average, measures uncertainty and market risk. As investors aim to achieve the optimum portfolio of risk and return, determining the factors that influence stock price volatility becomes imperative. Corporate profitability, which measures the extent of return earned on corporate activities and can be represented by accounting ratios such as Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS), contributes significantly to the perception of the

investors and the subsequent price dynamics in the stock market.

Empirical evidence suggests several relationships between measures of profitability and movements in stock prices, for example, Osundina, Jayeoba and Olayinka (2016) showed that accounting information affects the stock price volatility of Nigerian manufacturing firms, this result underscored the significant effect of profitability on investor's decision making. Furthermore, Edoaka and Ijeoma (2024) established the impact of accounting information on the fluctuations of stock prices in Nigerian service firms, this suggests the impact of corporate performance indicators on stock price dynamics. Similarly, Koleosho, Akintoye and Ajibade (2022) posited that dividend policy affects stock price volatility and indirectly impact the profitability of firms. Other studies such

as those by Okonkwo, Obiezekwem and Ifechukwu-Jacobs (2025) and Ogbeide and Evbayiro-Osagie (2019) investigated the impact of earnings and corporate governance on the dynamics of stock prices while Nurapiah and Latoki (2024) and Putri, Usdeldi and Rahma (2024) investigate the impact of ROA, ROE and EPS on firm value and stock price. However, very few of these studies investigate the relationship between corporate profitability and stock price volatility in Nigeria, with particular focus to market capitalization as control variable. The current study will address these gaps by investigating the relationship between corporate profitability and stock price volatility while controlling for market capitalization.

1.2 Statement of the problem

The relationship between corporate profitability and stock price volatility has attracted considerable research interests, but studies investigating this issue in the Nigeria setting are relatively few. Amidst the inherent volatility in stock market, the nature of association between profitability ratio like ROA, ROE and EPS and stock price movements becomes important. Stock price volatility which represents market uncertainty and is the degree to which the prices of stocks rise and fall, thus measures investment risk and future value estimation by investor (Abazu & Onuora, 2023). Although studies by other scholars have been able to provide link between profitability ratios and stock price movements in other stock markets but evidence is insufficient for the Nigeria context (Adeniyi, 2023; Alajekwu & Ezeabasili, 2020).

Corporate profitability in the form of ROA, ROE and EPS reflect information about firm efficiency, return on owner's equity, and profits generated per share of common stock. It is unclear, how these variables affect stock price volatility in Nigeria, considering the interplay of various external and internal factors driving market movements. Moreover, market capitalization could affect the outcome due to variations in firm size, and large corporations have differing stock price volatility compared to small corporations (Kassim et al., 2022).

Although, results of previous studies showed a relationship between profitability ratio and stock price volatility (Crisanti & Nuswandari, 2024; Kurniawan & Supriati, 2025), other research findings reported the relationship between profitability ratio and stock price volatility as weak or insignificant (Akerlele, Okewale, & Adeyemo, 2024). Studies in other countries documented a significant influence of profitability ratios on stock prices and volatility but these might not be applicable to Nigeria's market dynamics due to structural differences and market behavior (Abbas. Et al., 2018; Atmariyani & Agustia, 2024). This study will attempt to close the gap by investigating the relationship between corporate profitability and stock price volatility in Nigeria listed firms using market capitalization as a moderating variable.

Specifically, the objectives are:

- i. To examine the effect of Return on Assets (ROA) on share price volatility of listed companies in Nigeria.
- ii. To investigate the effect of Return on Equity (ROE) on share price volatility of listed companies in Nigeria.
- iii. To examine the effect of Earnings Per Share (EPS) on share price volatility of listed companies in Nigeria.

2.0 LITERATURE REVIEW

2.1 Corporate Profitability and Share Price Volatility

Understanding the link between corporate profitability and share price volatility is key for investors, managers and policymakers, particularly in emerging markets like Nigeria. Profitability is an indicator of financial health and affects investors' perception and future expectations of firms, thereby impacting stock prices (Abazu et al., 2023; Chibueze et al., 2024). It is typically measured in terms of ROA, ROE, and EPS. Share price volatility, on the other hand, measures how much a company's share price fluctuates over time and is an indicator of uncertainty or perceived risk within the market (Ogbeide et al., 2019).

ROA represents efficiency with which firms utilize assets to generate profit; ROE is the returns on equity generated from shareholders' capital, and EPS is a firm's profit per outstanding share (Koleosho et al., 2022; Atmariyani & Agustia, 2024). While theoretically it is hypothesized that high profitability leads to low stock price volatility (Chibueze et al., 2024), sometimes excessive profitability can lead to an overconfidence and thus speculative trading, consequently leading to increase in volatility (Abazu et al., 2023). Empirical evidence, however has been mixed with most studies finding higher profitability is associated with lower stock price volatility (Akerlele et al., 2024; Eneh et al., 2024), however there are studies which indicate that high profitability is associated with high stock price volatility if the firm's investment decisions have high risk (Alajekwu et al., 2020; Fatonah et al., 2017). For Nigerian markets, it has been observed that profitability indicators have a significant influence on stock prices (Abazu et al., 2023; Osundina et al., 2016).

2.1.2 Share Price Volatility

Share price volatility is defined as the variability of the price of shares of a firm over time, and is generally measured by calculating the standard deviation of stock prices. Volatility in the price of shares reflects the risk or uncertainty in a particular security. Volatility is affected by various factors especially in developing countries like Nigeria. Accounting information affects the share price volatility of firms in Nigeria consumer industry (Abazu et al., 2023). Firms with good financial position should have low volatility (Adeniyi, 2023). The value of stocks can be affected by exchange rate volatility in the case of Nigerian manufacturing companies (Kassim et al., 2022). Dividend policy also influences share price volatility (Alajekwu et al., 2020; Araoye et al., 2019).

Profitability measures also influence stock prices (Atmariyani et al., 2024).

2.1.3 The Relationship Between Corporate Profitability and Share Price Volatility

The relationship between corporate profitability and share price volatility is an area that attracts extensive interest in financial research, especially within developing financial markets such as Nigeria. Several profitability indicators, including ROA, ROE, and EPS, are used to assess a firm's financial performance, and to gauge its effect on stock price behavior. Past studies, by Abazu et al. (2023) and Adeniyi (2023) suggest that profitability measures affect the movement in stock prices as they are good indicators of the financial status of a firm and also are used as indicators of an asset's potential to generate return (Abbas et al., 2018; Kurniawan et al., 2025). While ROA reflects how efficient a firm uses its assets to generate profit, ROE represents how efficiently a firm's shareholders' funds are used to generate profit, and EPS demonstrates how much each share generates in terms of profit. Larger firms usually record less price volatility than their smaller counterpart as large companies attract investor confidence (Eze & Okonkwo, 2020). However, the impact of profitability on price volatility also depends on the size of a firm and other factors.

2.1.4 Profitability measures and their relative importance to Nigerian firms

Profitability measures are key for analyzing firm performance within Nigerian firms. Such indicators, including ROA, ROE, and EPS help in investors in their investment decisions, to better forecast future profits and evaluate stock prices. Profitability has been shown to impact firm valuation and stock prices. Abazu, et al. (2023) and Chibueze, et al. (2024) indicate that ROA and EPS impact on the market expectations while Abbas, et al. (2018) stress on their importance for capital intensive sector. Sectoral difference influences the specific importance attached to these measures, with ROA being more dominant in manufacturing while EPS affects investor perception in consumer goods sector.

2.1.5 Return on Assets (ROA) and share price volatility

ROA reflects how efficiently a firm utilizes its assets to earn profit, and is one of the profitability measures with the largest effect on stock prices (Abazu, et al., 2023; Chibueze, et al., 2024). Higher ROA is usually associated with a better valuation, and reduced uncertainty among investors (Abbas, et al., 2018; Kassim, et al., 2022). Volatility in a firms' ROA leads to higher stock price volatility (Kassim, et al., 2022). Efficient utilization of assets is important to ensure increased firm value.

2.1.6 Return on Equity (ROE) and share price volatility

ROE indicates how effectively a firm's owners' equity is utilized to produce profit, and consequently strongly influences investor behavior and their perception of the firm (Adeniyi, 2023; Ogbeide, et al. 2019). Firms with higher returns on equity attract better stock valuation and are less

volatile in the stock market (Abazu, et al., 2023; Kurniawan, et al., 2025). The impact of ROE on stock prices has been tested and found to be influential regardless of whether the firm is in manufacturing or in consumer industries (Abbas, et al., 2018; Chibueze, et al., 2024). This measure is usually tested in conjunction with ROA and EPS to provide a more in-depth view of firm performance (Crisanti, et al. 2024).

2.1.7 Earnings Per Share (EPS) and share price volatility

EPS is another profitability indicator that affects investor confidence, and subsequently stock prices (Abazu, et al., 2023; Ogbeide, et al. 2019). High earning per share has been attributed to lower stock price volatility due to a better outlook on a company's profit, and investors' decision on their investment choice in firms such as in mining and consumer industries (Fatonah, et al. 2017; Abbas, et al. 2018). In conjunction with ROA, EPS is one of the most critical performance measure (Atmariyani, et al. 2024).

2.1.8 Market Capitalization as a Control Variable

Market capitalization is very important in a study such as this. Typically, market capitalization of the firms influences the volatility of its stock prices. Larger companies have more stable market values due to investors confidence and their position in the market (Eze & Okonkwo, 2020; Nurapihah, et al., 2024). Moreover, it also mediates the effects of ROA, ROE and EPS on stock price volatility (Kurniawan, et al., 2025; Okonkwo, et al., 2025). Including it as a control variable will enable a clearer analysis of the role of profitability measures on stock price volatility (Eneh, et al., 2024; Kassim, et al., 2022).

2.2 Theoretical Framework

2.2.1 The Efficient Market Hypothesis and its relevance to share price volatility

The Efficient Market Hypothesis posits that the prices of securities at any point in time reflect all available information about their worth, meaning it is impossible to achieve above-average returns through security analysis or the forecasting of stock prices based on historical data since markets react instantly to new information (Fama, 1970). It is new information that affects firm specific expectations that may create or reduce share price volatility. When, for instance, there is a significant change in ROA, ROE or EPS, the market instantaneously reacts and price is adjusted (Osundina, et al., 2016; Ogbeide, et al. 2019).

2.2.2 The Capital Asset Pricing Model (CAPM) and corporate profitability

CAPM determines the equilibrium relationship between risk and return for assets. It seeks to answer the question of how a firm's indicators such as ROA, ROE, and EPS affects market perceived risks and returns. In a well-performing firm the beta value would likely be lower than that of a struggling firm, thus causing low volatility and high valuation (Kurniawan, et al. 2025; Wulandari, et al., 2024).

2.2.3 Interaction of the Theories with the study

The efficient market hypothesis explains how share prices react to information, making the change in prices related to

new information rather than systematic patterns (Fama, 1970). Capital asset pricing model makes it possible to view profits within a given context to its related risks, hence ROE and EPS can be modeled in relation to the expected return. The two concepts explain the analysis of information flow, profit and risk behavior, reinforcing the study's theoretical framework.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The ex-post-facto research design was employed, which involves an examination of sample units for a given period of time in order to study their behavior, dynamics, changes and effects. The population of the study is the 101 companies listed on the Nigerian Exchange Group (NGX) as at December, 2024. Judgemental sampling was used by segregating the companies into various exchange sectors of Nigerian Stock Exchange, which includes: Services, Natural Resources, Construction and Real Estate, Oil and Gas, Agriculture, Conglomerates, Consumer goods, Health Care, ICT and Industrial Goods, and samples 80 firms covering all ten sectors in the Nigerian Stock Exchange was extracted from the population. Secondary data were used for this study, because the data was published and confirmed by other sources of financial information such as external auditors, and does not need revalidation or testing of reliability and validity. Pooled panel technique were used in analysis of data since missing variables was an issue. This is a technique where data from multiple cross-sectional samples over time is merged into a single pooled data set and then analysis.

3.1 Model Specifications

The model for this study is stated in econometrics terms below as;

$$\text{Model I } SPV = f(\text{PROFITABILITY, MACA})$$

$$SPV = f(\text{ROA, ROE, EPS, MACA}) \quad \text{eq.1}$$

$$SPV_{it} = \alpha_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 EPS_{it} + \beta_4 MACA_{it} + \varepsilon_t \quad \text{eq.2}$$

Where;

f = Stochastic error term capturing other unexplanatory variables

ε_t = error term

i = firm identifier

t = time variable (10 Years)

α_0 is the intercept of the regression.

$\beta_1, \beta_2, \beta_3$ and β_4 are the co-efficient of the regression equation.

4.0 ANALYSIS AND DISCUSSION OF RESULTS

4.1 Descriptive Statistics Analysis and Discussion

Table 1: Summary of Descriptive for SHAREPRICE, ROE ROA, EPS and MACA.

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
SPV	800	7.012563	70.92633	-72.27	1319.48
ROE	800	102.3009	2493.853	-1964.346	69701.13
ROA	800	2.309375	16.55584	-179.9173	176.2669
EPS	800	1.750995	5.572892	-20.23	57.63
MACA	800	6.704451	1.066302	3.95424	9.64038

Source: Regression Output, 2025.

Table 1 illustrates the descriptive statistics of SPV, ROE, ROA, EPS and MACA over the 800 observations. For share price volatility the mean is 7.01 and the standard deviation is high suggesting high fluctuation and volatility. With Roe, there is high fluctuation and this implies that there are major outliers. The average profitability is different amongst firms. The EPS of these firms demonstrates the companies having a profit or a loss. The mean size of the firms MACA is not highly variable.

4.2 Correlation Analysis

Table 2: Summary of Correlation analysis for SHAREPRICE, ROE ROA, EPS and MACA.

	SPV	ROE	ROA	EPS	MACA
SPV	1.0000				
ROE	0.0363	1.000			

ROA	0.0064	0.0427	1.000		
EPS	-0.0037	-0.0077	0.3179	1.000	
MACA	0.1346	0.0250	0.2431	0.2888	1.000

Source: Regression Output, 2025.

Table 2 shows the Pearson correlation coefficients among SPV, ROE, ROA, EPS and MACA. It can be observed that there are no significant relationships among these variables in general. SPV has a weak positive relationship with ROE(0.0363) and ROA(0.0064), which indicates that profitability is not of much concern to price volatility. EPS has a weak negative relationship with SPV(-0.0037), which might be the unstable earning nature and the negative attitude toward profit. MACA has the highest correlation coefficient with SPV(0.1346), which suggests that price volatility is only slightly higher among large firms. The positive relationship between ROA and EPS is a moderate relationship (0.3179).

Furthermore, there are moderate correlations between MACA and ROA(0.2431) and MACA and EPS(0.2888) which implies that the performances of large firms are more favorable than that of small firms.

4.3 Result for Multicollinearity Test

Table 3: VIF Test Result

VARIABLE	VIF	1/VIF
EPS	1.18	0.850830
ROA	1.15	0.872335
MACA	1.12	0.890760
ROE	1.00	0.997242
Mean VIF	1.11	

Source: Regression Output, 2025.

Table 3 presents the Variance Inflation Factor (VIF) for the independent variables (EPS, ROA, ROE, and MACA) used in the regression analysis for predicting stock price volatility. VIF is a useful statistic for detecting multicollinearity, which can cause misleading estimates of coefficients when there is a high correlation among the predictors. Also the small VIF values provide additional evidence for the conclusions drawn in Table 2 for the correlation matrix where weak to moderate correlations were identified for among independent variables. Reported VIF values are all well below 10; the highest is EPS which recorded VIF = 1.18 and the lowest value was for ROE which registered VIF = 1.00. The mean VIF is 1.11 which indicates that multicollinearity is not a problem for this regression model, in other words each independent variable is contributing additional information to the model that is not provided by the others.

4.4 Other Diagnostic Tests

Table 4: Breusch and Pagan Lagrangian Multiplier test

Breusch and Pagan Lagrangian Multiplier test for random effect	
Decision rule	If p-value is statistically significant, then reject H_0 and accept H_A
Result	$\chi^2(1) = 0.08$; Prob> $\chi^2 = 0.3908$
Hausman Test	
Decision rule	If p-value is statistically significant, then reject H_0 and accept H_A
Result	$\chi^2(3) = 43.36$; Prob> $\chi^2 = 0.0000$

Source: Regression Output, 2025

There are two tests that help determine panel estimation choice shown in table 4. The Breusch and Pagan LM test is used to test between pooled OLS and random effects. Given the test statistic of 0.08 and the p value of 0.3908 there is no significant entity variation between the different entities and

so pooled OLS is appropriate. The Hausman test is used to test between fixed and random effects. Given the test statistic of 43.36 and the p value of 0.0000 it is assumed the random effects estimator's assumptions are incorrect and a fixed effects specification is therefore used.

4.5 Hypotheses Testing

Table 5: Summary of Fixed Effect Result

SHAREPRICE	Coef.	Std. Err.	t	P> t
ROE	.0007366	.0010246	0.72	0.472
ROA	-.0792031	.1850003	-0.43	0.669
EPS	-1.079252	.8470511	-1.27	0.203
MACA	75.91355	10.36774	7.32	0.000
_cons	-499.9488	69.43888	-7.20	0.000
N				800
F(4,716)				13.77
Prob > F				0.0000

Source: Regression Output, 2025.

In Table 5, a Fixed Effects regression model was used to test the relationship between indicators of firm profitability (ROE, ROA, and EPS) and share price volatility, controlling for market capitalization (MACA). The overall model has an F-statistic that is highly significant ($F(4,716) = 13.77$, $p < 0.01$), confirming that the model as a whole significantly explains variations in share price. However, looking at the individual coefficients, both ROE (Coef. = 0.0007366, $p = 0.472$) and ROA (Coef. = -0.0792, $p = 0.669$) appear to have statistically insignificant impacts on share price volatility. This could imply that return-based measures of profitability are unable to drive price volatility in the Nigerian market, due to market inefficiencies or investor lack of response to fundamental performance indicators. EPS also appears to have a statistically insignificant negative impact (Coef. = -1.0793, $p = 0.203$) suggesting that higher earnings per share may in fact drive down price volatility, but this relationship is not statistically supported in this study. MACA, conversely, has a significant, positive impact on share price (Coef. = 75.91, $p = 0.000$), implying that a higher market capitalization leads to higher levels of share price. This may be attributed to larger firms gaining more investor confidence, have higher liquidity and visibility in the market. The overall picture painted here is one where profitability measures do not significantly drive Nigerian stock price movements; only firm size has a substantial impact.

4.6 Discussion of Results

In order to examine the relationship between the measures of firm profitability and stock price volatility, a fixed effects regression model was implemented. From the regression results, it was concluded that only Market Capitalization (MACA) was statistically significant and had a positive relationship with share price ($p < 0.01$), while Return on Equity (ROE), Return on Assets (ROA) and Earnings Per Share (EPS) were not statistically significant. This finding is in line

with Chibueze et al. (2024) and Crisanti et al. (2024) who found that profitability measures were unable to predict Nigerian stock price due to market inefficiencies and weak response of investors to financial statement information. It can be assumed that in the Nigerian context, the insignificance of the return-based profitability measures, ROE and ROA could be due to stock sector volatility as well as non-fundamental factors such as market speculation or macroeconomic shocks, as found by Osundina et al. (2016) and Edeka et al. (2024). While EPS reported an insignificant negative impact on stock price, its coefficient suggests that higher earnings per share leads to lower share price volatility (as seen in Eneh et al. (2024) and Atmariyani & Agustia (2024)) but it was not statistically supported in this study. Market capitalization was found to be statistically significant and had a positive relationship with stock price. This means that larger firms (higher MACA) had higher share prices, which implies they were favoured by more investor confidence, had greater market visibility and higher liquidity and trading activity (which leads to lower prices compared to volatile markets as identified by Dicles et al. (2021)). The empirical results indicate that while profitability measures are relatively unimportant in predicting Nigerian stock price movements, market size continues to play a key role. This is why, transparency, corporate governance and investors education continue to be important, but emphasis also needs to be placed on building investor confidence and making the market a place where traditional fundamentals still play an important role. Future research should look into other aspects such as dividend policy, macro-economic shocks and behavioral finance.

5.1 Summary of Findings:

1. Return on Equity (ROE) had a positive but statistically insignificant affect on share price volatility, suggesting limited influence of ROE on investor behavior in the Nigerian market.
2. Return on Assets (ROA) showed a negative and statistically insignificant effect on share price, indicating that asset profitability does not significantly determine share price movements in the sampled firms.
3. Earnings Per Share (EPS) had a negative but insignificant effect on share price, revealing that earnings performance alone may not be a strong predictor of share price volatility in Nigeria.
4. Market Capitalization (MACA) was positive and statistically significant, showing that larger firms experience less share price volatility and are more attractive to investors.
5. The overall model was statistically significant (Prob > F = 0.000), indicating that the explanatory variables jointly influence share price.

These findings highlight that firm size (market capitalization) is a more effective determinant of share price than profitability measures like ROE, ROA, or EPS in the Nigerian capital market context.

5.2 Conclusion

This study examined the effect of key profitability indicators—Return on Equity (ROE), Return on Assets (ROA), and Earnings Per Share (EPS)—alongside Market Capitalization (MACA) on share price volatility of Nigerian listed firms. Using a fixed effects regression model, results indicated that ROE, ROA, and EPS had statistically insignificant effects on price volatility, suggesting that traditional profitability metrics are not strong predictors of stock movements in Nigeria. In contrast, market capitalization demonstrated a positive and significant impact, highlighting the importance of firm size in shaping investor confidence and stock behavior. Model diagnostics confirmed the suitability of the fixed effects approach, with no multicollinearity concerns. The findings imply that investors prioritize market presence over accounting-based profitability. Firms are advised to enhance market visibility, strengthen capital bases, and build corporate reputation to improve share price stability and investor confidence.

5.3 Recommendations of the Study

1. Policy Makers and Regulators: The Securities and Exchange Commission (SEC) and Nigerian Exchange Group (NGX) should emphasize greater disclosure and transparency regarding market capitalization and firm value metrics, as these have more influence on share price stability than traditional profitability ratios.
2. Corporate Management: Companies should strategically position themselves to grow in size and market presence through mergers, acquisitions, and investment in market-enhancing strategies, as larger firms are associated with more stable share prices.
3. Investors: Investors are advised to consider market capitalization as a key determinant when making investment decisions, as it has shown a stronger association with share price behavior than ROE, ROA, or EPS in the Nigerian market.
4. Researchers and Academics: Future research should explore sectoral differences and incorporate other market-based indicators such as mydividend yield, book-to-market ratio, or investor sentiment for a more holistic understanding of share price volatility.

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