AN APPRAISAL OF THE RELATIONSHIP BETWEEN THE SECURITIES PRICING METHOD AND THE MARKET QUOTATION OF LISTED SECURITIES IN THE NIGERIA STOCK EXCHANGE:

(A CASE STUDY OF THE FINANCIAL SERVICES INDUSTRY)

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ABSTRACT

This work is an appraisal of the relationship between the securities pricing methods and the market quotation of listed securities in the Nigerian Stock Exchange using First Bank PLC., Cornerstone Insurance PLC, Co-operative Bank PLC. and Prestige Assurance PLC. as the case studies.

The objective of this work is to find out why there are differences between the quoted prices of securities and the prices established by using any of the pricing methods as well as establish the factors that cause differences to exist between both. This work also established the extent of the relationship existing among the various pricing methods.

Data were collected from shareholders of the relevant companies as well as from the managerial staff of the companies. These formed the primary source of data. The secondary sources were the published annual reports of the NSE, First Bank of Nigeria PLC, Co-operative Bank PLC, Cornerstone Insurance PLC and Prestige Assurance PLC, for the period 1999 to 2003.

Data were presented in favour of tables, charts and statistical summarise and the analytical technique used is the Chi-square test of relationship.

After data analysis; the following were some of the findings made:

i) The Net Asset Method of share price valuation was different from the maintainable asset methods and both differed from the quoted prices of securities at the Nigerian Stock Exchange.

ii) The differences in the prices as established from the various pricing methods is due to the existence of other factors, for example, the forces of demand and supply, quality of companies products, and so on.

iii) That some companies are over-valued while others are undervalued due to market irregularities.

Given the above and the need to make the NSE more effective in ensuring fair and equitable pricing of securities it is recommended that communication network within the NSE should be improved to ensure timeliness of price-sensitive information. Also the listing requirement with respect to timeliness of performance reports of companies should be strictly enforced. Also Trade manipulations should be checked and the shares of crisis-ridden companies should be suspended to prevent wild speculations.

The above recommendations if implemented will help to ensure fair and equitable pricing of securities and reduce the differences existing between the various pricing methods and the quoted prices of listed securities.