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Ardova Plc Formally Forte Oil Plc an Analysis of Capital Structure and Performance

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Abstract
Different scholar's has addressed capital structure with respect to performance from different perspectives and approaches however there has never been anyone who has said an entity don't need capital structure for its operations therefore no entity can exist in isolation of capital structure, however every entity may has its proportion either as a result of the industry it found itself, the life cycle or base on the availability of the resources. Therefore this study examined the capital structure of Ardova plc formally known as Forte oil plc with respect to its performance using data ranging from 2019 to 2012 with the help of regression model and we found out that capital structure and performance has a negative relationship and has no significant impact on performance, we therefore recommended that stakeholders and the general public at large has no cause to panic as a result of the change of the firm name, we also found out that the company recorded its highest return on equity ratio 0.2422 in 2019 when non-current debt to equity was 0.2598, and equity to capital employed was 0.7938, therefore the company should maintain this proportion and if possible improved on it.
Keywords: *Capital structure, Performance*

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I. Introduction

Just like the vision and mission statement is important to an entity, in the same the capital structure of every entity is important for its survival or failure. The capital structure of an entity is the foundation upon which the success of the entity is built upon, because the structure of the firms is the combination of the debts ad equity share of that firm hence any wrong combination will affect the firm both in the short and long run. An indebt search into the oil and gas sector of the Nigeria stock exchange has been observed that the relationship between capital structure and performance has been and is still a long a matter of substantial deliberations for scholars and practitioners. Strategic management look towards capital structure because it is related with the entity ability to satisfy different stakeholders' demands Ajibola, Wisdom and Qudus (2018).

Kpolode, Edoumiekumo and Alfred (2020) opined that the name of every entity has a way of attracting goodwill to the company, hence any attempt taking to change the name will affect the company structure in the short run and its performance, therefore Ardova plc formally forte oil plc is not exception.

II. Review of Empirical Literatures

Kpolode, Edoumiekumo and Alfred (2020) examined 11 plc formally Mobil oil Nigeria plc capital structure and performance before the change of its name and after the change of its name using the paired t-test with data ranging from 2019 to 2013 and found out that the change of name has an impact on the company performance significantly, they therefore recommended that companies should engage in more sensitization for a specific period of time to keep the public aware before it change its name.

Etale, Edoumiekumo, Kpolode and Nkak (2020) investigated the link between capital structure and firm's performance of quoted industrial goods listed on Nigeria Stock Exchange by employing data from 2014 to 2019 multiple regression was used and found out that two of our independent variables NCD and TDE which represent capital structure has a statistical significant relationship with performance therefore recommended that non-current debt should be consider first if for any reason the entity need to borrow.

Nguyen, Ho and Vo (2019) conducted an empirical analysis on capital structure theories in Vietnam by employing the generalized method of moment approach with a sample of 227 listed firms in Ho Chi Minh City stock exchange ranging from 2008 to 2017 his study revealed a mixed evidence he also found out that different factors affect the capital structure decisions he also found out that firms followed the trade-off theory to determine their capital structure and the pecking order theory is the reason behind firms financing decisions.

Ajibola, Wisdom and Qudus (2018) employed data ranging from 2005 to 2014 in investigating the effect of capital structure on financial performance of quoted manufacturing firms in Nigeria a panel ordinary least square techniques was used and revealed that capital structure has a positive impact on financial performance therefore recommended that entities should employ more of long term debts.

Oladele and Omotosho (2017) examined the effect of capital structure on the performance of Nigerian listed manufacturing firms with data from 2004 to 2013 secondary data was employed using multiple regression technique and found out that capital structure has no significant effect on return on equity however has significant effect on return of assets, earnings per share and sales growth of listed manufacturing firms in Nigeria.

Taani (2013) examined the association between capital structure and firm performance in Jordan across different industries of Jordanian manufacturing firms. 45 manufacturing companies listed on the Amman Stock Exchange were used from 2005 to 2009 multiple regression analysis was employed and found out capital structure is not a major determinant of firm performance.

Oluwagbemiga (2013) examined the relationship between corporate capital Structure and Firm value in of 35 listed company in Kenyan descriptive and regression analysis was employed to determine the relationship between corporate capital structure and firm value of the Kenyan listed companies and revealed that there was a positive relationship between capital structure and firm value therefore opined that if debt to equity ratio increases the firm value also increase.

Evidence of research gap

The change of name by an entity may likely lead to capital restructuring and in the short run also lead to capital structure distortion if proper sensitization is not giving to stakeholders and the public at large for a specific period of time, on 17^{th} December 2019 Ardova plc formally Forte oil plc changed its name. Kpolode, Edoumiekumo and Alfred (2020) opined that the change of a company has impact on the company capital structure and performance, therefore employed secondary data to the impact of capital structure on the firm performance of Ardova Plc, this study will enable stakeholders and the general public to know if the capital structure actual effect the company performance with data ranging from 2019 to 2012.

III. Methodology

Research Design

Ex-post factor was adopted to analysed secondary data extracted from the company website and Nigeria Stock Exchange to evaluate Ardova Plc, this approached was to ensure data used are reliable as the researchers have no power to manipulate the data. Descriptive statistics and regression analysis was employed in eview. The hypotheses were tested using the analysed result from the study; the decision rule was to reject the hypotheses if the calculated the p-value is less than 5% (0.05).

Source of Data

The data adopted and used for this study was extracted from Nigeria stock exchange and the company website by analysing the company financial statements of Ardova Plc 20015 from 2019 to 2012. The data used for this study is reliable because this financial statement have been certified by an independent auditors, which cannot be manipulated. The variable for this study are return on equity (ROE), non-current debts to equity (NCDE) and equity to capital employed (ECE) **Data Analysis Techniques**

Descriptive statistics and regression analysis was adopted using Eview to test the hypotheses in the study, the decision rule was to reject the null hypotheses if the calculated p-values is less than 5% (0.05) significance level.

Model specification

We adopted model specification which has also been used by other scholars such Etale, Edoumiekumo, Kpolode, and Nkak (2020) and Ajibola, Wisdom and Qudus (2018), which is specified below:

ROE = $f(NCDE, ECE)$

Which can also stated in an equation form below:

ROE = $\alpha + \beta_1$NCDE + β_2ECE + μ

Where,

ROE = Return on equity, represent financial performance and also the dependent variables;

NCDE = Non-current debt to equity, represent capital structure and also an independent variable;

α = constant or intercept

$\beta_1 - \beta_2$ = coefficient of the independent variables for the study

μ = is the error correction term

ECE = Equity to capital employed, represent capital structure and also an independent variable

IV. Data Presentation And Analysis

The data used and presented in our study were extracted from Nigeria Stock Exchange and the Company web site.

4.1 Operationalizing values (Table 1)

YEAR	PAT	NON-CURRENT DEBT	CAPITAL EMPLOYED	EQUITY
	₦ '000	₦ '000	₦ '000	₦ '000
2019	3,915,140	4,199,344	20,362,669	16,163,325
2018	631,471	7,635,015	21,383,985	13,748,970
2017	12,226,422	23,434,022	78,713,243	55,279,221
2016	2,890,430	28,013,794	71,347,371	43,333,577
2015	5,794,055	15,858,864	62,139,607	46,280,743
2014	5,456,617	12,758,041	57,092,710	44,334,669
2013	5,004,397	15,677,725	58,027,032	42,349,307
2012	1,007,507	2,153,751	9,736,593	7,582,842

Source: Nigeria stock exchange, 2020.

Table one above showed the values of profit after tax extracted from the company financial statement from 2019 to 2013, the values above depicted that the company reported the highest profit in ₦ 12,226,422, 2017 while 2018 ₦ 631,471 profit was the lowest. The non-current debt in 2016 was the highest ₦ 28,013,794 while 2012 non-current debt ₦ 2,153,751 was the lowest from the data presented thus far. The capital employed 78,713,243 in 2017 was the highest while the capital employed 9,736,593 in 2012 was the lowest. Also the company employed the highest equity 55,279,221 thus far from the data above in 2017 and the lowest equity 7,582,842 in 2012. From the operationalizing values above, it showed that the values are not moving proportionally.

4.2 Operationalizing variables (Table 2)

YEAR	ROE	NCDE	ECE
2019	0.2422	0.2598	0.7938
2018	0.0459	0.5553	0.643
2017	0.2212	0.4239	0.7023
2016	0.0667	0.6465	0.6074
2015	0.1252	0.3427	0.7448
2014	0.1231	0.2878	0.7765
2013	0.1182	0.3702	0.7298
2012	0.1329	0.284	0.7788

Source: Authors computations, 2020.

Table two above showed that the company reported the highest return on equity (ROE) ratios 0.2422 in 2019 while the company reported the lowest return on equity (ROE) ratio 0.0459 in 2018. The non-current debt to equity (NCDE) ratios of 0.6465 was the highest in 2016 while the lowest non-current debt to equity (NCDE) ratios 0.2598 was in 2019, this therefor mean that more debt was employed in 2016 with respect to equity however the reverse was the case in 2019. The equity to capital employed (ECE) ratios 0.7938 in 2019 was the highest while that of 2016 was the lowest with a value of 0.6074.

4.3 Descriptive statistics (Table 3)

	ROE	NCDE	ECE
Mean	0.134425	0.396275	0.722050
Median	0.124150	0.356450	0.737300
Maximum	0.242200	0.646500	0.793800
Minimum	0.045900	0.259800	0.607400
Std. Dev.	0.067663	0.138982	0.067289
Skewness	0.440931	0.813765	-0.643069
Kurtosis	2.135529	2.281271	2.053999

Jarque-Bera	0.508330	1.055143	0.849690
Probability	0.775564	0.590036	0.653871
Sum	1.075400	3.170200	5.776400
Sum Sq. Dev.	0.032048	0.135213	0.031695
Observations	8	8	8

Source: Authors computations using eview, 2020.

Table 3 above showed the mean of; return on equity, non-current debt to equity and equity to capital employed are 0.134425, 0.396275, and 0.722050 respectively. Equity to capital employed has the highest value 0.722050 while return on equity has the lowest 0.134425 value. While the maximum of; return on equity, non-current debt to equity and equity to capital employed are 0.242200, 0.646500, and 0.793800 respectively. While non-current debt to equity 0.138982 is the most dispersed and equity to capital employed 0.067289 is the least dispersed.

4.4 Data analysis and hypothesis testing (Table 4)

Dependent Variable: ROE
Method: Least Squares
Date: 09/28/20 Time: 13:15
Sample: 2012 2019
Included observations: 8

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.623267	4.484717	0.138976	0.8949
NCDE	-0.498252	2.376819	-0.209630	0.8422
ECE	-0.403570	4.909215	-0.082207	0.9377

R-squared	0.389109	Mean dependent var	0.134425
Adjusted R-squared	0.144752	S.D. dependent var	0.067663
S.E. of regression	0.062574	Akaike info criterion	-2.424933
Sum squared resid	0.019578	Schwarz criterion	-2.395142
Log likelihood	12.69973	Hannan-Quinn criter.	-2.625858
F-statistic	1.592381	Durbin-Watson stat	1.978296
Prob(F-statistic)	0.291682		

Source: Authors computations using e-view, 2020.

The regression analysis presented in table four above explained Ardova plc link between capital structure (NCDE and ECE) and financial performance (ROE), the result shown that capital structure has no statically (F-statistic 0.291682) impact on performance of ardove plc since the calculated p-value is greater than 5%, however there is a positive relationship between capital structure and performance, this was also supported by the Durbin-Watson stat of 1.978296 which indicated a positive autocorrelation.

Test of hypotheses

The regression result above in table four was used in testing the objective and hypotheses of the study in the sections below:

- There is no significance relationship between non-current debt to equity (NCDE) and to return on equity

The regression analysis in table four above depicted that the coefficient of NCDE is -0.498252 which indicated a negative relationship of capital structure (NCDE) and performance (ROE) which is statistically insignificant with a p-value of 0.8422, this therefore indicated that capital structure (NCDE) has no significant on performance (ROE), which accepted the null hypothesis above.

- There is no significance relationship between equity to capital employed and (ECE) and return on equity.

The regression analysis in table four above also depicted that the coefficient of ECE is -0.403570 which indicated a negative relationship of capital structure (NCDE) and performance (ROE) which is statistically insignificant with a p-value of 0.9377, this therefore indicated that capital structure (ECE) has no significant on performance (ROE), which accepted the null hypothesis above.

V. Conclusion and Recommendations

We analyzed the financial statements of Ardova plc formally Forte oil plc published in Nigeria stock exchange and the company website to know if capital structure has influenced over performance with data ranging from 2019 to 2012, regression model was employed. Since the change of name may likely lead to capital structure reformation, this study revealed that capital structure has no impact on performance, this therefore mean that whether the company change its name or not it will not affect the company performance therefore stakeholders and the general public need not to panic. This was contrary to Kpolode, Edoumiekumo and Alfred (2020) who opined that the change of a company name has impact on capital structure with respect to performance.

Recommendations
From our findings, we therefore recommended that:

i. The company recorded its highest return on equity ratio 0.2422 in 2019 when non-current debt to equity was 0.2598, and equity to capital employed was 0.7938, therefore the company should to maintain this proportion and if possible even improved on it; and

ii. Companies should engage in more sensitization for a specific period of time to keep its stakeholders and the public aware that the change of name even if it myth lead to capital reformation will have no effect on its performance.

Research Contributions

The study revealed that change of the company name even if the capital structure change will not have any impact on the company performance, therefore stakeholder and most especially creditors need and the general public need not to panic when dealing with them and proper sensitization should be made to the various stakeholders at the right time.

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