Scholarly Research Journal for Humanity Science & English Language
Online ISSN 2348-3083, SJ IMPACT FACTOR 2021: 7.27
https://www.srjis.com/issues_data/223
PEER REVIEWED, REFEREED & INDEXED JOURNAL OCT-NOV 2023, Vol-11/60

TRADING OF STOCKS AND BONDS IN PUBLIC SECTOR COMPANIES (AN APPLICATION TO OIL COMPANIES IN NIGERIA)

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Paper Received On: 25 September 2023
Peer Reviewed On: 21 October 2023
Published On: 01 December 2023

Abstract

The concept of stocks and bonds trade in the Nigeria oil sector has been a major hub of discussion whenever the state of the nation's economy is being discussed by local and international investors. Thus, this research buttressed the challenges bedeviling this critical sector, bearing in mind the enabling statutes and policies of government regulating the sector. Also, this research major significance is breaching the gap of communication and easing the understanding of the entire concept for the general populace and potential investors. While the major objective of is to explore the constraints faced by potential investors and the possible remedy. The major challenges surrounding the whole sector are ignorance, nepotism and corruption, which gave room to all sort of complexities; one will be left to the only pragmatic approach which will be tilted towards the doctrinal method with the use of secondary based source and legal analysis. What dashed out the hope of potential investors in the stock markets participation is uncertainty and security of investment. And the appropriate remedy for this malady is sound legal and regulatory framework.

***Keywords**:- Stocks, Bonds, Public sector companies, Oil companies, legal and regulatory framework.*

Introduction

The concept of stocks and bonds been classes of securities within the context of the capital market operation in Nigeria are essentially contributing to the growth [1]of domestic product (GDP) of the

[1] https://www.nerdwallet.com/article/investing/stocks-vs-bonds. Accessed on 24/08/2023

nation. These securities are equally part of the portfolio used by investors when making an investment decision. Therefore, appropriate and effective regulation of the capital market would be a strong driver to the nation's economy. However, this is not the case with the current happenings in the Nigerian capital market sector, notwithstanding the market's decades of existence. There are many uncertainties in the market and has become even popular opinions among certain classes of investors that the market needs an effective and efficient regulation. Moreover, the definition of securities provided in section 315 of the Investments and Securities Act, 2007[2] also make the matter worse for investors, when making an investment decision.

Stocks and bonds are often paired together when talking about investments, but their risks, returns and behaviors have stark differences.[3]

These two investment types can both play important roles in a portfolio — but they work in very distinct ways.[4]

According to Nigeria's National Bureau of Statistics (NBS), the Nigerian economy grew by 1.94%y/y in Q2 2019, below the 2.10%y/y growth recorded in the preceding quarter. The lack luster performance in Q2 2019 (compared to Q1 2019) was mostly due to the performance of the non-oil sector, which grew by 1.64% (Q1 2019: 2.47%).[5] However, capital importation declined by 31% to from US$8.49 billion in Q1 2019 to US$5.82 billion in Q2 2019, majorly driven by a decline in foreign portfolio investments (FPI). FPI dropped by 40% from US$7.15 billion in Q1 2019 to US$4.3 billion. Analysis of portfolio investments showed that the bulk of FPI inflow was channeled into money market instruments (82.21%). Investments in equity and bonds, on the other hand, declined by 52.60%y/y and 20.96%y/y, respectively. Despite the renewed activity in the primary equity market, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded a decline of 5% from 31,430.50 as at the end of December 2018 to 29,966.87 and as at the end of June 2019.[6]

[2] Section 315 of the Investments and Securities Act, 2007 NO.29

[3] Ibid

[4] ibid

[5] Nigerian Capital Markets Update September 2019

[6] Nigerian Capital Markets Update September 2019

RAISING FUNDS THROUGH THE CAPITAL MARKET

In every capital market, the first financing instrument that was ever developed was the bond; today, in certain developing economies, the government bond market is often the only liquid market in existence. Over time as financial systems develop and corporate debt and equity markets take shape, the bond market retains their importance due to their flexibility and the ease with which (in theory!) transactions can be undertaken. In the advanced financial markets in developed countries today, the introduction of financial engineering techniques has greatly expanded the range of instruments that can be traded. These products include instruments used for hedging positions held in bonds and other cash products, as well as meeting the investment and risk management needs of a whole host of market participants. The debt capital markets have been and continue to be tremendously important to the economic development of all countries, as they have been the form of intermediation that allowed governments and corporate bodies to finance their activities. In fact, it is difficult to imagine long-term capital-intensive projects such as those undertaken by say, petroleum, construction or aerospace companies, as well as sovereign governments, taking place without the existence of a debt capital market to allow the raising of vital finance.[7]

The capital markets are the term used to describe the market for raising and investing finance. The economies of developed countries and a large number of developing countries are based on financial systems that contain investors and borrowers, markets and trading arrangements. A market can be one in the traditional sense such as an exchange where financial instruments are bought and sold on a trading floor, or it may refer to one where participants deal with each other over the telephone or via electronic screens. The basic principles are the same in any type of market. There are two primary users of the capital markets, lenders and borrowers. The source of lenders' funds is, to a large extent, the personal sector made up of household savings and those acting as their investment managers such as life assurance companies and pension funds. The borrowers are made up of the government, local governments and companies (called corporates). There is a basic conflict in the financial objectives of borrowers and lenders, in that those who are investing funds wish to remain liquid, which means they have easy access to their investments. They also wish to maximize the return on their investment.

Corporate, on the other hand, will wish to generate a maximum net profit on its activities, which will require continuous investment in plant, equipment, human resources and so on. Such investment will,

[7] Moorad Choudhry, The Bond and Money Markets: Strategy, Trading, Analysis

therefore need to be as long-term as possible. Government borrowing as well is often related to long-term projects such as the construction of schools, hospitals and roads. So, while investors wish to have ready access to their cash and invest short, borrowers desire as long-term funding as possible.[8] An economist referred to this conflict as the "constitutional weakness" of financial markets (Hicks 1946), especially when there is no conduit through which to reconcile the needs of lenders and borrowers. To facilitate the efficient operation of financial markets and the price mechanism, intermediaries exist to bring together the needs of lenders and borrowers. A bank is the best example of this. Banks accept deposits from investors, which make up the liability side of their balance sheet, and lend funds to borrowers, which form the assets on their balance sheet. If a bank builds up a sufficiently large asset and liability base, it will be able to meet the needs of both investors and borrowers, as it can maintain liquidity to meet investors' requirements as well as create long-term assets to meet the needs of borrowers.

The bank is exposed to two primary risks in carrying out its operations, one that a large number of investors decide to withdraw their funds at the same time (a "run" on the bank), or that large numbers of borrowers go bankrupt and default on their loans. The bank is acting as a financial intermediary reduces the risk it is exposed to by spreading and pooling risk across a wide asset and liability base. Corporate borrowers wishing to finance long-term investment can raise capital in various ways. The main methods are:[9]

■ continued re-investment of the profits generated by a company's current operations;

■ selling shares in the company, known as equity capital, equity securities or equity, which confirm on buyers a share in the ownership of the company. The shareholders as owners have the right to vote at general meetings of the company, as well as the right to share in the company's profits by receiving dividends;

■ borrowing money from a bank, via a bank loan. This can be a short-term loan such as an overdraft, or a longer-term loan over two, three, five, years or even longer. Bank loans can be at either a fixed or more usually, variable rate of interest;

■ borrowing money by issuing debt securities, in the form of bonds that subsequently trade in the debt capital market.

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[8] Ibid.

[9] Ibid.

The first method may not generate sufficient funds, especially if a company is seeking to expand by growth or acquisition of other companies. In any case, a proportion of annual after-tax profits will need to be paid out as dividends to shareholders. Selling further shares is not always popular amongst existing shareholders as it dilutes the extent of their ownership; there are also a host of other factors to consider including if there is any appetite in the market for that company's shares. A bank loan is often inflexible, and the interest rate charged by the bank may be comparatively high for all but the highest quality companies. This is because there is often a cheaper way for corporates to borrow money: by tapping the bond markets. An issue of bonds will fix the rate of interest payable by the company for a long-term period, and the chief characteristic of bonds – that they are tradeable – makes investors more willing to lend company funds.

Recently, the Nigerian government issued N100bn Sukuk to finance 25 road projects and issued N10.791bn Green bonds to finance afforestation, renewable energy and provision of clean energy. Similar opportunities also exist to issue revenue bonds to finance revenue-generating projects, which will exert less pressure on government budget and allocation.[10] The Nigerian bond market, therefore, has the potential to close the country's huge infrastructure deficit. An AfDB (2013) report shows that Nigeria's annual GDP growth can increase by four percentage points if the country's infrastructure is scaled up to the level of African middle-income countries. It is estimated that Nigeria needs to invest US$350 billion in its infrastructure sector between 2011 and 2020. A total sum of $131.2b is expected to be mobilized from the private sector. In addition to the general-purpose bonds often issued, infrastructure project bonds can be issued to finance debt obligations of a single-asset infrastructure project. It is designed such that the expected income from the executed infrastructure is securitized to ensure payment of the bond's interest and principal. [11]

The positive theory of regulation, on the other hand, states that the market should be regulated by the force of the law to entrench discipline, order and justice. This theory of regulation starts by antagonizing the theory of market power and advocates the stakeholders' theory, thus aiming at protecting the stakeholders' interests. However, the theory of market power states that, in any given market, equilibrium is usually maintained by the existence of an automatic mechanism, called price mechanism, or better still, price system. This is an automatic market regulator and the automatic

[10]Uduk M, Capital Market as a Catalyst for Economic Growth and Development, NJSM 3(2), 5-11

[11] Ibid.

market balancing factor, which is the interaction or interplay of the forces of demand and supply (Ayodeji, 2013). [12]

There are two aspects of the market power; first, the market will usually be in a state of equilibrium, such that, there will be a balance between the two market forces-aggregate demand and aggregate supply. This aspect of the theory of market power is supported by the assertion of J. B Says, that, supply will create its own demand, such that, there will neither be excess supply nor excess demand. Second, though, there may be a temporary distortion, the automatic mechanism will restore the market to a state of balance. In other words, any distortion in the market is temporary, as the interaction of the forces of demand and supply is usually on ground to act as a balancing factor to bring the market situation to normalcy i.e. a state of balance. Specifically, the theory of market power is justified on two major grounds, which are the competitive market argument and the evolutionary theory of economic change.

Globally the stock market has become more prominent during the 2008 global economic meltdown, which also led to the crash of the market and other economic fortunes of Nigeria. Since then, the market is still striving to recover from the shock and bounce back to life. On the other hand, the oil sector in Nigeria, which is contributing to over 70% of the nation's export revenue is still utilised. Investment in the oil sector in Nigeria is also full of uncertainties as to the stocks market but for different reasons, which are mainly dominated by the multinationals companies as private companies on the one hand, while the Nigerian National Petroleum Corporation which initially serve as an oil and gas sector regulator, revenue collector and commercial hub on the other hand. All these are among the issues this research investigated. This is despite the effort of the Nigerian government to address these challenges faced by more especially domestic investors and the system through legislative intervention.[13]

Another fascinating development was the position of NNPC relinquishing 40% of its shares to the public. This development renewed the hope and enthusiasm of investors in Nigeria. The question the oil and gas reformers in Nigeria seek to address is easy to conceptualize: How can the society's economic welfare be maximized over time using the wealth derived from produced and remaining petroleum reserves in Nigeria? Supposedly, the answer to this question lies within a pragmatic petroleum development policy framework with a serious emphasis on managing revenue flows and

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[12] Ayodeji, Emmanuel A., Ph.D., Adediran, Adewale Gbolagadeb, HISTORICAL DEVELOPMENT, REGULATION AND SANITIZATION OF NIGERIA'S CAPITAL MARKET Journal of Advances in Social Science and Humanities, Vol. 4 (11), 379-395, 2018 DOI 10.15520/jassh411370 ISSN - 2395-654

[13] Ibid.

expectations, creating linkages with non-petroleum sectors, expanding local capacity and infrastructure development, human capacity building and development, and advancing technical progress and entrepreneurship and managerial skills.[14]

Consequently, this research has painstakingly unfolded the major challenges bedeviling the stock market and the oil sector if properly and sincerely addressed, would positively impact the economic prospects and legal system of Nigeria. This research further seeks to achieve some level of certainty as to the true nature of stocks as a component of securities in order to identify the appropriate legislation or amendment that would regulate the activities of various competing interests in the market. The extreme call of research on the interaction between oil markets and stock markets has meant that we have lost track of the key findings from the literature. The danger, in the absence of a stock take, is that we will produce a series of research on how oil prices interact with stock returns without them having any real impact on the economy. This research is a response to this concern. It highlights the key themes researched, main findings and importantly, identifies key challenges and suggests an agenda for future research on the interaction between oil prices and stock returns and oil prices and the financial sector more generally.

Also, of prominence is the complexities of the capital market in Nigeria. And of great significance is the issues surrounding the equities Market of the oil price which is traded above $55pb, peace in Niger-delta and stable exchange rate, implementation of the budget will contribute to economic growth.[15]In such an environment, the stock market will maintain a positive growth trajectory, as an increase in aggregate demand will raise companies' performance. Forex availability will aid access to raw materials.[16]Listed companies that are contractors or producers of government preferred sectors enjoy increased earnings. Government expenditure on cost-reducing infrastructure will generally benefit most firms. If domestic borrowing is reduced, companies will have access to cheaper funds; hence, a higher value. Preference for equities if the interest rate falls.[17]

While the position is not different from the Bond market, also known as Debt Market. The high deficit of N2trn with planned new domestic borrowing of N850bn offers investment opportunities. But the plan to rebalance debt portfolio in favour of external borrowing may reduce domestic issuance of

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[14] Iledare O.O. (2008): Petroleum and the Future of Nigeria: Challenges, Constraints and Strategies for Growth and Development. IPS Monograph Series No.5, pp30. University of Port Harcourt's Institute of Petroleum Studies. Nigeria

[15] Afolabi E. Olowookere, Ph.D., 2018 Budget Implications for Capital Market: The Nigerian Capital Market and 2017 Budget: Lessons for 2018

[16] Ibid.

[17] Ibid.

bonds and primary transactions, raise turnover of existing debt instruments. And listing and trading of Eurobond on FMDQ will reduce this transaction loss. Eurobond gives an average turnover of N4bn in a month (0.05% of turnover). It can also serve as hedge instrument; if the interest rate falls, preference for equities may lower transactions on a fixed income.[18]

STOCKS

Stocks represent partial ownership, or equity, in a company. When you buy stock, you're actually purchasing a tiny slice of the company — one or more "shares." And the more shares you buy, the more of the company you own. Let's say a company has a stock price of $50 per share, and you invest $2,500 (that's 50 shares for $50 each).[19]

Now imagine, over several years, the company consistently performs well. Because you're a partial owner, the company's success is also your success, and the value of your shares will grow just like the value of the company. If its stock price rises to $75 (a 50% increase), the value of your investment would rise 50% to $3,750. You could then sell those shares to another investor for a $1,250 profit.[20]

Of course, the opposite is also true. If that company performs poorly, the value of your shares could fall below what you bought them for. In this instance, if you sold them, you'd lose money.

Stocks are also known as corporate stock, common stock, corporate shares, equity shares and equity securities. Companies may issue shares to the public for several reasons, but the most common is to raise cash that can be used to fuel future growth.[21]

BONDS

Bonds are fixed income securities issued as debt instruments with low interest yield but guaranteed return on investment over time. CLASSIFICATION Bonds can be classified into Government and corporate bonds. GOVERNMENT BOND Government bond is issued by government at all levels, while public companies issue corporate bonds. Government bonds are considered the safest and most reliable loan instrument because it is difficult for government to be insolvent. They are secured by the revenue accruing to the issuer or the sponsor government from the consolidated fund of the

[18] Ibid.

[19] Ibid

[20] Ibid

[21] Ibid

federation, and encumbered by a sinking fund indemnity, with powers conferred on the trustees to enforce the debt instrument obligations.

"A "payment Bond" simpliciter, is "A bond given by a surety to cover any amounts that, because of the general contractor's default, are not paid to a contractor or subcontractor or materials supplier." See Black's Law Dictionary, 9th edition, page 201-202. In Real Estate Finance Law, by Grant S. Nelson, 1994, 3rd edition, paragraph 12.2 page 881 the learned author wrote that: "The bond serves two purposes: it assures the owner a lien-free project, and it induces suppliers and sub-contractors to accept work on the project, perhaps at a lower price, because of the assurance that they will be paid. Since no additional charge is generally made for a payment bond when a performance bond is being purchased, the two are usually issued simultaneously." Per JOSEPH TINE TUR, JCA (Pp 49 - 50 Paras D - B)[22]

Bonds can also be regard as a loan from you to a company or government. There's no equity involved, nor any shares to buy. Put simply, a company or government is in debt to you when you buy a bond, and it will pay you interest on the loan for a set period, after which it will pay back the full amount you bought the bond for. But bonds aren't completely risk-free. If the company goes bankrupt during the bond period, you'll stop receiving interest payments and may not get back your full principal.

Let's say you buy a bond for $2,500 and it pays 2% annual interest for 10 years. That means every year, you'd receive $50 in interest payments, typically distributed evenly throughout the year. After a duration of 10 years, you would have earned $500 in interest, and you'd get back your initial investment of $2,500, too. Keeping a bond for the full duration is known as "holding until maturity."

The ***Investment and Securities Act 2007 (ISA)*** generally regulates the issuance of bonds by the Federal and State Governments in the Nigerian Capital Market. In addition to the Act, ***Section 13*** of the ***ISA*** provides that the Securities and Exchange Commission (SEC) is to regulate the Nigerian Capital Market. Pursuant to this, the SEC has enacted

the ***Securities and Exchange Commission Rules (SEC Rules) 2013*** to assist it in the performance of its regulatory functions. Thus, the *ISA* and *SEC Rules* jointly provide for the legal regulatory framework for the issuance of bonds in the Nigerian Capital Market. Jointly, both legislations provide

[22] FCMB PLC v. BENBOK LTD (2014) LPELR-23505(CA)

for several pre-conditions and restrictions for the issuance of a bond by the Federal and State Governments in the Nigerian Capital Market.

Section 223 of the *ISA* provides that Federal and State Governments may from time to time raise internal loans for any specific project authorized by the approving authority through the issue of securities in the form of registered bonds. Some of these legal requirements to be met before issuing a valid bond by the Federal and State Governments are;

A bond is a debt security, similar to an IOU. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time.[23]

When you buy a bond, you are lending to the issuer, which may be a government, municipality, or corporation. In return, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal, also known as face value or par value of the bond, when it "matures," or comes due after a set period of time.

With bonds, you usually know exactly what you're signing up for, and the regular interest payments can be used as a source of predictable fixed income over long periods.

The durations of bonds depend on the type you buy, but commonly range from a few days to 30 years. Likewise, the interest rate — known as yield — will vary depending on the type and duration of the bond

TYPES OF GOVERNMENT BONDS

i. Sovereign bonds - by federal government;
ii. Revenue bonds by states, local governments and government agencies; and
iii. Municipal bonds by cities within a local government Note the categories of persons who can issue public bonds – section 222 ISA[24]

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[23] https://www.investor.gov/introduction-investing/investing-basics/investment-products/bonds-or-fixed-income-products/bonds#Buy accessed on 10/9/2023

[24] Council of Legal Education Nigerian Law School Corporate Law Practice Handbook Nigeria Law School 2022 Page 143

[25] https://www.investor.gov/introduction-investing/investing-basics/investment-products/bonds-or-fixed-income-products/bonds#Buy accessed on 10/9/2023

DIFFERENCE BETWEEN STOCKS AND BONDS

The significance difference between stocks and bonds is that with stocks you own a little portion of a company, whereas with bonds you're loaning a company or government money. Another difference is how they make money: stocks must grow in resale value, while bonds pay fixed interest over time.

COMPARING STOCKS AND BONDS

While both instruments seek to grow your money, the way they do it and the returns they offer are very different.

Stocks and bonds generate cash in different ways, too.

To make money from stocks, you'll need to sell the company's shares at a higher price than you paid for them to generate a profit or capital gain. Capital gains can be used as income or reinvested, but they will be taxed as long-term or short-term capital gains accordingly.

Bonds generate cash through regular interest payments. The distribution frequency can vary, but it's generally as follows:

- **Treasury bonds and notes:** Every six months until maturity.
- **Treasury bills:** Only upon maturity.
- **Corporate bonds:** Semiannually, quarterly, monthly or at maturity.

Capital gains vs. fixed income

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Bonds can also be sold on the market for a capital gain, though for many conservative investors, the predictable fixed income is what's most attractive about these instruments. Similarly, some types of stocks offer fixed income that more resembles debt than equity, but again, this usually isn't the source of stocks' value.

Inverse performance

Another important difference between stocks and bonds is that they tend to have an inverse relationship in terms of price — when stock prices rise, bonds prices fall, and vice versa.

Historically, when stock prices are rising and more people are buying to capitalize on that growth, bond prices have typically fallen on lower demand. Conversely, when stock prices are falling and investors want to turn to traditionally lower-risk, lower-return investments such as bonds, their demand increases, and in turn, their prices.

Bond performance is also closely tied to interest rates. For example, if you buy a bond with a 2% yield, it could become more valuable if interest rates drop, because newly issued bonds would have a lower yield than yours. On the other hand, higher interest rates could mean newly issued bonds have a higher yield than yours, lowering demand for your bond, and in turn, its value.

To stimulate spending, the Federal Reserve typically cuts interest rates during economic downturns — periods that are usually worse for many stocks. But the lower interest rates will send the value of existing bonds higher, reinforcing the inverse price dynamic.

But 2022 wasn't your typical year. The Fed has been raising interest rates in an effort to tamp down rising inflation. And so far, both stocks and bonds are down more than 10%.

Taxes

Since stocks and bonds generate cash differently, they are taxed differently. Bond payments are usually subject to income tax, while profits from selling stocks are subject to capital gains tax (which is lower for some brackets).

However, there are a couple of bond taxation loopholes investors should be aware of.

Municipal bond payments are exempt from federal income tax. Most states also exempt their own municipal bonds (but not out-of-state municipal bonds) from state income taxes.

Treasury bond payments are generally exempt from state income tax, although they are fully subject to federal income tax.

Stock risks

The biggest risk of stock investments is the share value decreasing after you've purchased them. There are several reasons stock prices fluctuate, but in short, if a company's performance doesn't live up to investor expectations, its stock price could fall. Given the numerous reasons a company's business can decline, stocks are typically riskier than bonds.

However, with that higher risk can come higher returns. The market's average annual return is about 10%, while the U.S. bond market, measured by the Bloomberg Barclays U.S. Aggregate Bond Index, has a 10-year total return of 4.76%.[26]

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[26] https://www.investor.gov/introduction-investing/investing-basics/investment-products/bonds-or-fixed-income-products/bonds#Buy accessed on 10/9/2023

Bond risks

U.S. Treasury bonds are generally more stable than stocks in the short term, but this lower risk typically translates to lower returns, as noted above. Treasury securities, such as government bonds and bills, are virtually risk-free, as these instruments are backed by the U.S. government.[27]

Corporate bonds, on the other hand, have widely varying levels of risk and returns. If a company has a higher likelihood of going bankrupt and is therefore unable to continue paying interest, its bonds will be considered much riskier than those from a company with a very low chance of going bankrupt. A company's ability to pay back debt is reflected in its credit rating, which is assigned by credit rating agencies such as Moody's and Standard & Poor's.

Corporate bonds can be grouped into two categories: investment-grade bonds and high-yield bonds.

- **Investment grade.** Higher credit rating, lower risk, lower returns.
- **High-yield (also called junk bonds).** Lower credit rating, higher risk, higher returns.

These varying levels of risks and returns help investors choose how much of each to invest in — otherwise known as building an investment portfolio. According to Brett Koeppel, a certified financial planner in Buffalo, New York, stocks and bonds have distinct roles that may produce the best results when they're used as a complement to each other.

"As a general rule of thumb, I believe that investors seeking a higher return should do so by investing in more equities, as opposed to purchasing riskier fixed-income investments," Koeppel says. "The primary role of fixed income in a portfolio is to diversify from stocks and preserve capital, not to achieve the highest returns possible."

PRESENCE OF STOCKS AND BONDS OF OIL COMPANIES TRADED IN MARKETS

Despite the strategic roles of the oil and gas sector is playing in the economic development of the country, there are insignificant presence of stocks and bond been traded at the floor of the Nigeria stock exchange and bond market respectively. Therefore, challenges this critical sector may be unconnected with a lot of factors such as corruption, nepotism and monopoly, despite the succinct but elaborate discussion on the impact cannot be overemphasis.

A recent report by the National Bureau of Statistics (NBS) identified the oil and gas sector as having the highest contraction in the second quarter of this year 2022.

The oil sector has consistently recorded negative growth for the ninth consecutive quarter, contracting again by -11.8% y/y in Q2 2022 following a higher contraction of -26% y/y in Q1.[28]

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[27] Ibid

Following the current market apathy occasioned by the build-up to the 2023 general election which saw the NGX All Share Index (ASI) drop below 50,000 index points to close trading at 49,836.51 points on August 31, 2022, the Oil & Gas Index which measures the performance of the oil and gas firms quoted on the NGX recorded a decline of 4.3 percent to 532.15 points from 556.28 points it opened for trading in August.

This is despite the fact that the sector is leveraging the rise in crude oil prices as a result of the Russian-Ukraine crisis.

Concerns of investors about the political risk associated with general elections in Nigeria have impacted negatively on the shares of the firms listed in the oil and gas sector and equities market at large and may likely continue as political parties are set to begin 2023 election campaigns.

However, some of these companies managed to weather the storm. According to data obtained by Naira metrics from the NGX which focused on the top performing oil and gas stocks during the month of August 2022, Japaul Gold Plc, Adova Plc, Conoil Plc, and Oando Plc made the list of the best four performing firms.

These stocks were selected based on their price performance from year to date and are represented by the percentage gained.

Oando – 2% [29]

- The share price of Oando Plc, grew by 2% during the period under review, from N5.00 per share to N5.10 per share, lifting the market capitalization to gain N1.243.14 billion or 2.% to close at N63,400 billion in August 31, 2022, from the opening figure of N62.157.06 billion.[30]
- During the twelve months ended December 31, 2020, Oando's production was 44,550 boe/day, compared to 42,492 boe/day in 2019. In 2020, production consisted of 15,912 bbls/day of crude oil, 1,757 boe/day of NGLs and 161,288 mcf/day (26,881 boe/day) of natural gas.

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[28] https://www.african-markets.com/en/stock-markets/ngse/nigeria-s-best-performing-oil-and-gas-stocks-in-august-2022 accessed on the 8/11/2023 at 2300 hrs

[29] Ibid

[30] https://www.african-markets.com/en/stock-markets/ngse/nigeria-s-best-performing-oil-and-gas-stocks-in-august-2022 accessed on the 8/11/2023 at 2300 hrs

- The increase in production was a result of increased natural gas production at OML 60-63 (22%) offset by a 29% decrease in NGL production and a 5% and 15% crude production decrease at OML 56 and OML 13 respectively.
- Oando closed on September 6, 2022, at N5.20 per share on the Nigerian Stock Exchange (NGX). Oando began the year with a share price of N4.42 and has since gained 17.7% on that price valuation, ranking it 33rd on the NGX in terms of year-to-date performance.

Conoil Plc – 2.12%[31]

- Shares of Conoil Plc gained 2.12% in price during the month, from N25.95 to N26.50 per share. The company enjoyed buy-interests which drove up the market capitalization to gain N381 million to close at N18,389.73 billion at the close of trading on August 31, 2022, from the opening figure of N18,008.06 billion at the beginning of trading on August 1st.
- Conoil Plc reported a decline of 16.83% in revenue during the half year of 2022 as the oil and gas firm battled to remain afloat amid volatility in the economy. Conoil reported revenue of N56.248 billion during the half year of 2022 as against N67.638 billion representing a drop of 16.83%.
- Conoil closed its last trading day (Tuesday, September 6, 2022) at N26.50 per share on the Nigerian Stock Exchange (NGX). Conoil began the year with a share price of N22.00 and has since gained 20.5% on that price valuation, ranking it 31st on the NGX in terms of year-to-date performance.

Adova Plc – 5% [32]

- Shares of Adova Plc have also enjoyed a positive run during the month. The oil firm gained 5% in price during the month, from N12.00 to N12.60. The company enjoyed buy-interests which drove up the market capitalization to gain N781 million to close at N16,411 billion at the close of trading on August 31, 2022, from the opening figure of N15,629.26 billion at the beginning of trading during the period under review.[33]

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[31] Ibid

[32] https://www.african-markets.com/en/stock-markets/ngse/nigeria-s-best-performing-oil-and-gas-stocks-in-august-2022 accessed on the 8/11/2023 at 2300 hrs

[33] ibid

- Ardova Plc posted revenue of N126.650 billion for the first half of the year 2022 from N86.770 billion in 2021, accounting for an increase of 45.96% as the firm leverage from the rising cost of fuel occasioned by inflation and the Russia and Ukraine war.
- Ardova share price currently trades at N12.30 per share on the Nigerian Stock Exchange (NGX). It began the year with a share price of N13.00 but has since lost 5.38% off that price valuation, ranking it 107th on the NGX in terms of year-to-date performance.

Japaul Gold Plc – 43.47%

- The share price of Japaul Gold Plc, grew by 43.47% during the period under review, from 23 kobo per share to 33 kobo per share, lifting the market capitalization to gain N626.27 million or 43.47% to close at N2,066.69 billion on August 31, 2022, from the opening figure of N1,440.42 billion.
- Japaul's revenue for the half year ended June 2022 declined by 64.14% from N313.62 million to N112.46 million in 2021. Loss after tax stood at N427 million from N258 million in 2021.
- The company's share price currently trades at N0.29 per share on the Nigerian Stock Exchange (NGX), recording a 3.3% drop from its previous closing price of N0.30. Japaul Gold and Ventures began the year with a share price of N0.39 but has since lost 25.6% off that price valuation, ranking it 150th on the NGX in terms of year-to-date performance.

Nigerian energy stocks close in on best quarterly performance in nine years

The NGXOILGAS, the index tracking the performance of that sector, has yielded 50.7 per cent since April as of Tuesday.[34]

Nigerian energy stocks are right in the neighborhood of their best quarter in nine years, enjoying a boost from the unusually strong investor sentiment that has come to shape trade after the new government announced a resolve to pursue several market-friendly reforms.

It has never been so fruitful for the energy shares of Africa's second-biggest bourse since the second quarter of 2014 as now, according to the NGXOILGAS – the index which tracks the performance of that sector – having yielded 50.7 per cent since April as of Tuesday. That is only lower than the three months to June 2014 when such stocks returned 62.5 per cent. [35]

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[34] https://simplywall.st/stocks/ng/energy/market-cap-large

[35] Ibid

The index is only outperformed by the one monitoring the progress of insurance equities out of the five sector indexes on the Nigerian Exchange.

While oil & gas equities have yielded 66.5 per cent since the start of the year, they have added 41.2 per cent in 52 weeks, according to the Nigerian Exchange data.

MRS Oil leads the pack of the six benchmark stocks, with a yield of 182.6 per cent so far this quarter.

Eterna Oil, acquired by unlisted Rainoil Limited some 18 months ago, and Mike Adenuga-backed Conoil come next, returning 180.9 per cent and 115.8 per cent in that order.

Nigeria's biggest oil & gas company by market value, Seplat Energy, is up by only 21.7 per cent this quarter. But the oil driller thrilled shareholders in April when it announced a novel windfall dividend, doubling the cash it paid them for the last quarter of last year as a global oil price boom catapulted the firm to record revenue.

Seplat Energy, which has a secondary listing in London, is the company stock of the 156 equities quoted in Lagos paying dividends for each of the four quarters of the year.

Energy stocks and new reforms

A tide of policy shifts in Africa's biggest oil producer in the wake of President Bola Tinubu's rise to power in May, including the cessation of a popular but costly petrol subsidy scheme, is rejuvenating participation in energy stocks and helping return liquidity to the market.

Eliminating the subsidy "will also spur investments in both the upstream and downstream sectors over the medium term, as crude production for domestic refining is not subject to OPEC quota," analysts at Vetiva Securities Limited said in a note this month.

Nigeria's Petroleum Industry Act, which came to life in 2021, forbids NNPCL from importing above 30 per cent of the country's gasoline needs.

The conversion of NNPCL itself into a publicly quoted company is in the works, having been bogged down by loss-making, mismanagement, graft and decrepit infrastructures for years under a government corporation structure.

Energy companies exiting the market in droves

The boom in the valuation of energy stocks coincides with a time when retaining such companies is increasingly problematic for the Nigerian stock market authorities and winning new ones is perhaps far more harrowing.

Oando, also listed in Johannesburg, and Ardova are on the line-up of companies set to take their leave from the main stock exchange in Lagos as their core investors have declared the aspiration to take them private.

While oilman Abdulwasiu Sowami, who holds a 74.1 per cent interest in Ardova, has tabled N17.4 billion (premium inclusive) to buy the remaining shares, Oando's top shareholders, Wale Tinubu and Omamofe Boyo, are talking others into taking a premium of 58 per cent on the share price as of 28 March as an incentive to divest.

CAPITAL OIL PLC [MRF]CAPOILOIL AND GAS

CONOIL PLCCONOILOIL AND GAS

ETERNA PLC.

JAPAULGOLD OIL AND GASA

MRS OIL NIGERIA PLC.

OANDO PLC

RAK UNITY PET. COMP. PLC.

SEPLAT ENERGY PLC

NGX TRADING SUMMARY FOR TUESDAY, NOVEMBER 14, 2023: At the end of today's trading session on the Nigerian Stock Exchange (NGX), a total of 327,426,214 shares in 6,533 deals, corresponding to a market value of NGN 3,368,813,682.85, were traded. Compared with the previous NGX trading day (Monday, November 13), today's data shows 31% decline in volume, 57% decline in turnover, and 14% decline in deals. The current market capitalization of the Nigerian Stock Exchange is NGN 38.9 trillion. [36]

In the aggregate, 121 NGX listed equities participated in trading, ending with 35 gainers and 17 losers. Northern Nigeria Flour Mills led the gainers with 10% share price appreciation closing at NGN 19.80 per share, followed by MeCure Industries (+9.98%), C&I Leasing (+9.97%) and LivingTrust Mortgage Bank (+9.96%). On the losing side, Red Star Express came out last with an end-of-day price depreciation of 9.76% at NGN 2.96 per share, followed by FTN Cocoa Processors (-9.29%), Mutual Benefits Assurance (-5.77%) and Caverton Offshore Support Group (-4.83%). Japaul Gold and Ventures recorded the highest volume of 44.7 million traded shares, followed by Fidelity Bank (36.4m), United Bank for Africa (26.7m) and Oando (21.3m).[37]

Regarding the performance of NGX **market indices**, the benchmark *NGX All-Share Index* (ASI) climbed 227.91 (0.32%) points to close at 70,840.72, representing a 1-week gain of 0.32%, a 4-week gain of 5.22%, and an overall year-to-date gain of 38.22%. Other remarkable indices that performed

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[36] https://afx.kwayisi.org/ngx/ accessed on the 15/11/2023 at about 1520 hours

[37] ibid

were the *NGX Top 50 Index* (+0.3%; +0.72% 1WK; +45.7% YTD), *NGX Top 30 Index* (+0.27%; +0.19% 1WK; +41.18% YTD), *NGX Industrial Index* (+1.39%; -1.1% 1WK; +16.21% YTD), *NGX Banking Index* (+0.69%; +1.59% 1WK; +76.36% YTD), *NGX Main Board Index* (+0.46%; -0.25% 1WK; +43.15% YTD), and *NGX Pension Index* (+0.4%; +0.27% 1WK; +68.23% YTD).[38]

CONCLUSION

It is not a gain saying that the abundance of oil and gas resource in Nigeria cannot be over emphasis, so also the subsisting over dependence on the said resource by the country, made it the major contributory factor to the GDP and also the main stay of the nation's economy. Therefore, despite such abundance, the stocks of the oil and gas sector is still less visible traded on the floor of the Nigeria Stock market compared to the increasing discovery of oil across Nigeria but this critical sector has been recording decline due to high rate of corruption and nepotism among key actors and critical stakeholders.

RECOMMMENDATIONS

The following recommendations become necessary in order to address the urgent need to address the legal issues and problems presently confronting the oil sector and its ability to utilize the stock market to enhance economic strength and growth of the country. Thus: -

1. There is need to have good development of the bond market more particularly the oil and gas sector in the country in order to allow private Investors access to large number of debt instruments to enhance their liability management.
2. There is need to have good government policies that will enhance the development of stock market. For instance, in Nigeria, as part of deregulation and liberalization policy of 1980s, federal government suspended its traditional yearly issuance of development stock. The suspension of the issue for 17 years (1987-2003) was not a good gesture for developing stock market. High market activity serves many economic functions such as; increase in volume traded, catalyze entrepreneurial activity, increase savings and investment in the long run and diversion of risks.
3. A good perception of a company and a country will attract investment in the country as the decision to invest in financial instrument or securities market or in a specific sector of the economy is influenced by investors' perception. Poor perception definitely would impact adversely in the level of investment. Insecurity in the country would no doubt send a wrong

[38] Ibid

signal to foreign investors. International perception of a country's political and socio-economic environments is a strong influence on foreign investor's entrance in the economy.

4. There is need to increase public enlightenment due to low level of awareness and ignorance of the operations and benefits of the stock market in Nigeria. Most investors buy shares as a stock of wealth or an object of inheritance for their children. Inability of the market to influence stockholders to offload or dispose their stock rather than keep it as wealth is a hindrance to stock market development. Besides, most investors do not trade their stock that is declining in value for those that are appreciating in value. As a result of lack of awareness and ignorance, majority of investors engage in buy and keep attitude.
5. Infrastructural deficiencies and malfunction are major impediment affecting the pace of investment growth in Nigeria. As a result, the overall result is drags and delays in handling of securities transactions and low dissemination of information as regards the operations of Nigerian stock exchange. Proper monitoring and dissemination of information should be adequately put into commensurate market expectations. There is also the need to have adequate infrastructural facilities such as roads, power, telecommunications, improved technology that would create an enabling environment for businesses to grow, increase productivity, efficiency and increase rate of returns of companies which will lead to stock market development.
6. One of the functions of the stock exchange is mobilization of surplus funds through bonds, stocks and other facilities and making them available to the deficit sector to hasten the rate of investment. In the Nigerian context, this basically needs public enlightenment. A persistent enlightenment should be created far and wide to arouse the interest of potential investing public who wish to avail themselves of the opportunities of investing in financial securities. Also, public awareness about the returns and benefits drivable from trading in stock and shares should be encouraged.
7. For investors to easily buy and sell stocks, the market must be liquid. Liquid market facilitates the trading of varieties of financial securities. Though, third tier security market has been created to promote indigenous products, it is still recommended that the primary market on the stock exchange should find a means of relaxing some of the entry requirement to both the first tier and second tier securities market. By so doing, many companies will obtain entry into the market and have their securities traded. Government should also raise funds through capital market to boost market activity. Buy and keep attitude of investors restricts activities in the stock exchange. Shareholders do not relinquish their shareholdings for sale. Stock holders should learn that stocks are not held to perpetuity but are disposed when the price appreciates. Investors should also keep track of companies' stocks in their portfolio to enable them sell off their declining stocks.