

**"THE EFFECT OF RIGHTS ISSUE ON MARKET RETURNS OF
FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE"**

This research project is my own work and has not been submitted for award of any degree in any other university and where other people's research work has been used, they have been duly acknowledged.

Signed _____

Date 09/11/2012

NDUA DANIEL NDICU

D61/62661/2010

BY

DANIEL NDICU/NDUA

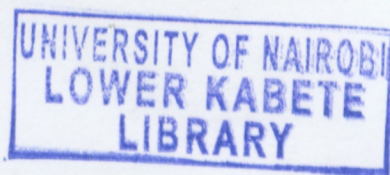
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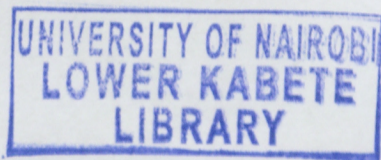
**RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION OF THE
UNIVERSITY OF NAIROBI**

NOVEMBER 2012



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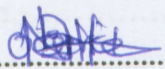


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DECLARATION

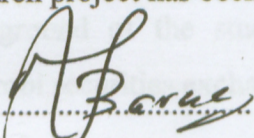
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Signed..... 

Date..... 09/11/2012

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This research project has been submitted with my approval for examination purposes;

Signed..... 

Date..... 12/11/12

Name: Mr. Joseph Barasa
University Supervisor

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LIST OF ABBREVIATIONS AND ACRONYMS

CMA	Capital market authority
CS	Capital structure
D	Value of a Debt
EBIT	Earning before interest and tax
EPS	Earning per share
IPO	Initial public offer
Kd	Cost of Debt
MM	Modigliani and Miller
MPS	Market price per share
NPV	Net present value
NSE	Nairobi securities exchange
SL	Value of levered firm stock
VI	Value of the levered firm
Vu	Value of unlevered firm
WACC	Weighted Average Cost of Capital
AAR	Average abnormal returns
SRV	Security returns variability
ASRV	Average security returns variability
CAR	Cumulative abnormal return

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I wish to highly express my gratitude to my supervisor, Mr. Joseph Baraza whose invaluable guidance and insights made it possible for me to carry out the research study to its logical conclusion.

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I also wish express my gratitude to staff of the CMA and the NSE for allowing me to use their facilities for purposes of data collection. My friends, classmates and colleagues deserve mention for their patience and encouragement during entire course.

For those not specifically mentioned, accept my sincere gratitude for your contribution and assistance in any way to make this project a success.

May the almighty God bless you.

DEDICATION

This project is dedicated to my late parents without whom i would not have gone this far

A special dedication goes to my brother Francis Mbugua who supported me financially in all that i needed to make this project a success.

ABSTRACT

Rights issue is a form of financing that not only involves shareholders but also result to an increase in the number of equity of the firm at the securities' exchange. With an increase in equity, there exist some market reactions especially to the issuing firm. Investors have the potential of affecting the firms trading at the security market. The market reactions can be positive where there is increased trading of the firm's shares or negative which is reduced trading volume. The share prices take the same trend. The objective of the research was to evaluate the effects of the rights issue on the stock returns of firms listed at the NSE .The firms examined, were those listed at the Nairobi Stock Exchange. These kinds of research are useful mainly to potential investors and corporate managers who may be faced with a rights issue paradox and rights issue financing option respectively. The market model was used to generate the excess returns. The significance of the findings is tested using the two tailed t statistic. The overall findings strongly confirm that rights issues in the NSE have information content. The nature of the information is negative but the extent is varied like other findings across the world. The implication of these findings is that companies issuing rights must release sufficient and relevant information to the market for proper interpretation of the issue.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Modigliani and Miller (1958) capital structure irrelevance theory; it does not matter if the firm's capital flows do not change. M and M argue that the total risk for all security holders of a firm is not altered by changes in the firm's capital structure. Therefore the total value of the firm must be the same, regardless of the firm's financing mix. Simply put the MM position is based on the idea that no matter how you divide up capital of a firm among debt, equity, and other claims, there is a conservation of investment value. That is because the total investment value of a company depends on its profitability and risk, firm value is unchanging with respect to changes in the firm's capital structure (James C et al 2008). Ross's, (1977) model suggest that the values of firms will rise with leverage. In their second seminar paper Modigliani and Miller (1963) show that firm value is an increasing function of leverage due to tax deductibility of interest payments at the corporate level. Debt policy and equity ownership matter and the way in which they matter differ between firms with many and firms with few positive NPV projects (McConnell and Servaes, 1995).

According to research done by International Journal of business and Management capital restructuring involves equity or debt restructuring that has a direct influence on capital structure. In short, it can be clearly restated that debt restructuring is a means of conducting financial restructuring program that has effect on a company's capital structure (Miller and Modigliani, 1958; Myers and Majluf, 1984; Majumdar and Chibber, 1999). Once a company has determined an appropriate capital structure, it still has the some theorists agree that a firm's optimal capital structure is that combination of debt and equity at which agency and bankruptcy costs are minimized. Agency costs are the incremental costs associated with having an agent of debt capital holders make decisions

for the principal. Within the context of this consideration of the determination of optimal capital structure management is an agent while stakeholders are principal. Other theorists point out however that while issuing debt typically produces positive outcome for the firms the determination of optimal capital structure for a firm is dynamic process that in addition to agency and bankruptcy cost must account for the effects of corporate and personal income taxes, transaction costs and the degree of control over a firm's investments that will be delegated by stockholders to the firm management (Brealey and Myers, 1996)

Problem of timing security issues when external financing is required, a company often faces the question of how to time an issue appropriately and whether to use debt or common stock. Because financing is "lumpy" it is difficult for a company to maintain strict proportions in its capital structure. Frequently, it must decide whether to finance now with a stock issue and later with debt issue, or vice versa. Consequently, it is forced to evaluate the alternative methods of financing in light of general market conditions and expectations for the company itself.

Most information-based theories presume that managers (or, more generally, existing shareholders) know more about the value of the firm than do potential new investors. This asymmetric information creates an adverse selection problem (the "lemons" problem of Akerl of 1970), which can explain the existence of a price drop when an equity issue is announced. Myers and Majluf (1984) apply this idea to security issues and create a framework that is used in much of the subsequent literature. They assume that managers know more about the firm's true value than do outside investors and also that managers act in the interests of existing shareholders. Rational investors correctly value firms on average, but individual firms can be mispriced, conditional on managers' private information. Since managers act in the interests of existing shareholders, there is an incentive to sell new equity when it is overvalued. Thus, selling equity on average conveys negative information about the firm, and the stock price drops at the equity issue announcement. Lucas and McDonald (1990) demonstrate that a similar story can simultaneously explain the extended price rise preceding the equity issue, the drop at

issue, and the clustering of issues following a market rise. The key assumptions behind their model are (a) managers know more about the value of the firm than do outside investors, (b) delaying an equity issue is costly (it lowers the net present value of projects), and (c) the market assesses firm values correctly on average, but individual firms may be temporarily mispriced. As the market receives new information over time, the valuation of undervalued firms tends to increase while the valuation of overvalued firms tends to decrease. Under these assumptions, consider two firms that for some reason plan to issue equity. Suppose the two firms are identical except that one is overvalued and one is undervalued. The undervalued firm expects the market to revise upward its estimate of the firm's value, hence there is an incentive to postpone the equity issue until the stock price is higher. The overvalued firm, on the other hand, expects that the market will learn its true value over time, and it bears the cost of waiting. This firm, therefore, issues equity as soon as the opportunity arises. This issue policy for the two types of firms implies that equity issues will be preceded by positive abnormal returns on average. Undervalued firms wait for their price to rise before issuing so that their average price path prior to issue will be upward sloping. Overvalued firms, on the other hand, do not wait. If the arrival of profitable opportunities for issuing equity is uncorrelated with a firm's price history, then their price path prior to issue will, on average, be flat. Thus the average price path prior to issue for all firms that issue equity will be upward sloping. As in Myers and Majluf (1984), when firms do issue they tend to be overvalued, so the price drops at issue announcement.

1.1.1 Nairobi securities exchange (NSE)

The Nairobi securities exchange was constituted in 1954 as a voluntary association of stock brokers registered under the Societies Act. Trading in shares at the NSE was not strictly guided by rules but it was largely a gentleman's agreement between trading parties and mainly involved professional acting on behalf of their clients before the registration of the NSE in 1952. After Kenya gained its independence, the NSE remained depressed exchange in trading volumes as uncertainty regarding the policy of new independent African governments' scared investors. The first issue of share through the NSE was in 1988 when the first privatization involving the sale of a 20% government

stake in Kenya Commercial Bank was done. This privatization marked the start of robust growth for the NSE. Notably, in 1994 the NSE 20-Share Index recorded an all-record high of 5030 points on Feb. 18, 1994, NSE website (2012).

During this period, the NSE has 58 listed companies whose shares trade on the stock exchange. The study will focus on the companies listed on the NSE and all the companies listed will be considered. The NSE has also grown to incorporate trade in financial securities such as bonds issued by the government as well as the private sectors and currently modalities of introducing microfinance stocks is in progress.

The NSE has been structured into ten main sectors' namely; Agricultural, Commercial and services, Telecommunications and technology, Banking, Insurance, Investment, Manufacturing and allied, Construction and allied, Energy and petroleum, Automobile and accessories.

1.2 Statement of the Problem

Modigliani and Miller (1958) asserted that capital structure is irrelevant to a company value. This proposition has been criticized by many researchers all over the world including M and M (1966; 1977) agreed that capital structure affects the firm value, Stephen Ross (1977) held that when a firm takes up more debt financing it signals to the market that its headed to a prosperous future. In his study Mulievi J.b (2009) found out that there is no relationship between capital structure and firm value where Ipo is used as a proxy for change in capital structure; the study further found out that this failure to establish that there is a relationship between capital structure and firm value results from the fact that each firm increased debt financing along with equity by issue of shares to the public through Ipo (and sometimes retained earnings) as a result the debt ratio did not change along with MPS , EPS, net total earnings.

Marc Schauten, Jaap Spronk (2006): "Reflections on economic and other values", noted that despite a vast literature on the capital structure of the firm there still is a big gap between theory and practice. Starting with the seminal work by Modigliani & Miller,

much attention has been paid to the optimality of capital structure from the shareholders' point of view.

Capital restructuring has been an issue of interest in financial literature since public Companies came into existence. Capital restructuring involves equity or debt restructuring that has a direct influence on capital structure. Many studies have been carried out where equity and debt increases in different proportions without emphasis on the impact on market return if equity increases in proportion over debt; and hence the extent to which a company's choice of capital structure affects its market value is still unresolved. This study therefore analyses the effects of a rights issue on market returns of firms listed at the Nairobi securities exchange; with a specific objective to examine the effect of a rights issue, where actual equity increases in proportion over debt.

This study will try to answer some of the following questions; how does change In equity financing affect firms value? What's the behaviour of share price after a rights issue, is there a significant change on the firms value due to capital restructuring? What is the impact of a rights issue on the value of the firm where debt and equity become the same?

1.3 Objective of the study

The objective of this study was to find out the effect of rights issue on market returns of firms listed at the Nairobi securities exchange.

1.4 Importance of the study

Local and foreign investors will be interested in the study in order to determine how to maximize their returns in the stock exchange over time. This will enable the investors to determine where to invest in order to maximize their returns. Investors will understand why companies follow a given capital when making capital structure decisions, which might be different from their expectations

Corporate management will be interested in this study in order to determine how to solve their agency problems with the shareholders, to enable the management to determine the desire of their principals so as to maximize it over time. The finance

managers are provided with critical decision making information regarding financing and their impact on the value of the firm. The information from the study will form the basis for a lot of investment and operation decisions. Corporate managers are proved with insight on how rights issue offer and issue of additional debt affect the capital structure of a firm and its consequent effects on the general market share price. This will help management to plan and establish how much capital to raise fro rights issue that will enhance the value of the firm.

Regulatory agencies such as NSE and capital Market Authority (CMA) can use the study to regulate the operations of listed companies in the stock exchange. This will enable the regulatory authorities to understand how to set rules and regulations governing the operations of the stock exchange so as to make sure that managers do not exploit the general public.

The study is also significant to academicians in shedding light on whether a rights issue have any effect on the value of a share. It will also be a source reference to academicians who would carry out a similar research and those who want to gain an understanding in this area. .The study should provide a food lead to further research concerning capital structure and its relationship with a firm's performance. The Kenya industry will be provided with empirical results from data they can relate with.

The study will benefit the brokers in the stock exchange as they seek to get information on quoted firms so as to advice their clients on which stock to stake their money. Depending on the needs of the clients, the broker or agent will be able to place a particular client in a company with the dividend policy that best policy that best fits the client.

This study is beneficial to shareholders on important information in regard to investment for owners of a given firm. They then can make choices of what levels of either debt or equity financing they may adopt in their firm. It has been noted that offers often share out debt and equity proportionately and so lowering the risk to the original equity owner

1.5 Justification of the study

Many studies have been carried on the area of capital structure; in all these studies the choice of capital structure, the combination of debt and equity used to finance the activities of a firm, is one of the fundamental decisions that the management of a firm has to make.

To determine whether a change in capital structure increases or decreases the value of the firm, market return reaction can be an effective tool. There are many models that try to show the effect of a rights issue on market returns. Consequently, since changes in leverage often result from security issues, many studies have studied the share price reaction to the announcement of security offerings.

However, this study focused on an area that has received little attention in previous research studies: the increase of equity in proportion over debt. Previous studies have found there is no relationship between capital structure and firm value where initial public offer (IPO) is used as a proxy for change, but few studies have investigated the effect of a rights issue on market returns where actual equity increases in proportion over debt.

The researcher was motivated to undertake this study due to the following main reasons; firstly, surveys by researchers suggest there is no relationship between capital structure and firm value (share price). Mulievi, J.B. (2009) market reaction to planned change in capital structure: public offers as proxy for change in capital structure, evidence from NSE. He found out that share price of firms had to drop prior to the offer and the same fall continued after the offer, the study further found out that there is no relationship between capital structure and firm value where IPO is used as proxy for change in capital structure. He noted that this failure to establish that there is a relation between capital structure and share price results from the fact that each firm increased debt financing along with equity, by issue of new shares to public through IPO. Menza, M.K. (2009) An empirical analysis of the relationship between stock return and capital structure of companies listed at NSE; found out that variations in stock returns were due to other

factors other than changes in capital structure of firms. This study will help answer the question whether these findings held by previous studies indeed hold or are justified.

Although a lot of studies have focused on the impact of change on capital structure on stock returns there are few studies few studies investigating the impact of a rights issue on market returns where actual equity increases in proportion over debt. This study therefore looks at the effect capital a rights issue where actual equity increases over debt i.e. (effect of additional debt need to be isolated from increase in equity).

2.1 Theoretical Literature Review

This chapter discusses the broad spectrum of theoretical orientation of capital structure theories that exist in literature. It brings out the need to know the effects of capital restructuring on the value of the firm. It also briefly discusses the capital structure theories that have been advanced by different scholars. The controversy between the Miller-Friedland (MF) capital structure irrelevancy theory and other capital structure relevant theories namely; trade off theory, pecking order theory.

2.1.1 Capital irrelevancy theory

Modern capital structure theory began in 1958, when myt published what has been called the most influential financial article ever written. Myt's study was based on the following assumptions: there are no bankruptcy costs, there are no taxes, there are no hard-to-pass-up costs, investors can borrow at the same rate as corporations. All the investors have the same information as management about the firm's future investment opportunities and FVIT is not affected by the use of debt. (Myt and Myers, 2003)

If the above assumptions hold true, was proved that a firm's value is unaffected by its capital structure. Hence the following equation was valid, $V_L = V_U = S + D$, V_L is the value

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This study is an investigation into the effect of a rights issue on the market returns listed at the Nairobi securities exchange. This section addresses and reviews past studies on the subject and critically reviews relevant literature on this area. The chapter comprises three sections; section 2.1 and its subsections explain the theoretical literature review, section 2.2 and its subsections explain the conceptual framework, section 2.3 discusses an empirical review.

2.1 Theoretical Literature Review

This chapter discusses the broad spectrum of theoretical orientation of capital structure theories that exist in literature. It brings out the need to know the effects of capital restructuring on the value of the firm. It also briefly discusses the capital structure theories that have been advanced by different scholars. The controversy between the Miller-Modigliani (MM) capital structure irrelevancy theory and other capital structure relevance theories namely: trade off theory, pecking order theory.

2.1.1 Capital irrelevancy theory

Modern capital structure theory began in 1958, when mm published what has been called the most influential finance article ever written. Mm's study was based on the following assumptions; there are no brokerage costs, there are no taxes, there are no bankruptcy costs, Investors can borrow at the same rate as corporations. All the investors have the same information as management about the firm's future investment opportunities and EBIT is not affected by the use of debt. ((Michael c and Eugene B, 2003)

If the above assumptions hold true, mm proved that a firms value is unaffected by its capital structure, hence the following situation must exist. $V_l = V_u = S_1 + D$. V_l is the value

of a levered firm, which is equal to V_u , the value of an identical but unlevered firm. S_l is the value of the levered firm's stock and D is the value of its debt. Since the WACC is a combination of the cost of debt and the relatively higher cost of equity r_s , as leverage increases, more weight is given to low cost debt, but equity gets riskier, driving up r_s . Under MM's assumptions r_s increases by exactly enough to keep the WACC constant. Put another way, if MM assumptions are correct, it does not matter how a firm finances its operations, so capital structure decisions would be irrelevant. (Michael C and Eugene B, 2003).

In 1963 MM relaxed the assumption that there are no corporate taxes. In their seminar paper on corporate taxes, MM show that firm value is an increasing function of leverage due to the tax deductibility of interest payments at the corporate level. (Michael C and Eugene B, 2003).

2.1.2 The Modern Trade-Off Theory

In the continuing debate about capital structure the modern or current mainstream view prefers to explain CS in terms of a trade-off between agency/bankruptcy costs and the tax shield on debt interest (Michael C and Eugene B, 2003).

The idea of agency cost as one of the determinants of capital structure was propounded by Jensen and Meckling (1976), who based their studies on the findings of Fama and Miller (1972). In their study Jensen and Meckling introduced the idea of separating ownership from control and they also pointed out the possible conflict existing between owners and managers which results in an increase of the agency cost. (Jensen and Meckling, 1976)

There are three main types of agency costs which can help explain the relevance of capital structure. Asset substitution effect: As Debt/Equity ratio (D/E) increases, management has an increased incentive to undertake risky (even negative Net present Value (NPV) projects. This is because if the project is successful, share holders get all the upside, whereas if it is unsuccessful, debt holders get all the downside. If the projects are

undertaken, there is a chance of firm value decreasing and a wealth transfer from debt holders to share holders. (Michael c and Eugene B, 2003).

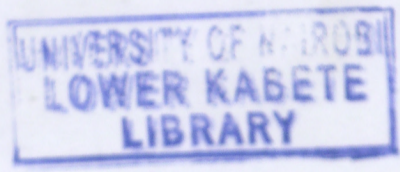
Underinvestment problem: If debt is risky (e.g., in a growth company), the gain from the project will accrue to debt holders rather than shareholders. Thus, management have an incentive to reject positive NPV projects, even though they have the potential to increase firm value.

Free cash flow: unless free cash flow is given back to investors, management has an incentive to destroy firm value through empire building and perks. Increasing leverage imposes financial discipline on management

Other agency costs include; The neutral mutation hypothesis; firms fall into various habits of financing, which do not impact on value, Market timing hypothesis; capital structure is the outcome of the historical cumulative timing of the market by managers and Accelerated investment effect; even in absence of agency costs, levered firms use to invest faster because of the existence of default risk. Incurring agency costs has an effect of reducing the shareholders' Value.

When debt is introduced the agency problem is extended to the relationship between shareholders and lenders. When a lender is considering whether to advance funds to a company the decision will be based on an assessment on the company's risk, business and financial and of its expected future cash flows. If the loan is made, the interest rate charged and the loans terms and conditions will be influenced by these factors. Once the loan is made it may be open to company's managers to take advantage of lenders; for example using funds to more risky investment that disclosed to lenders. This called asset-substitution problem. (Michael c and Eugene B, 2003).

To eliminate or at least minimize this type of managerial behavior, lenders will typically insist on restrictive covenants and provisions in loan agreements to protect their interests; for example limiting debt-equity ratios, dividend payout ratios and other liquidity ratios. The cost of all the protective arrangements imposed by lenders is an agency cost; a cost



which is borne by the shareholders when the firm uses debt in its CS. Clearly the more debt a firm employs the greater will be the debt-related agency costs. There may come a point when the additional costs of raising more debt may exceed the benefits of interest tax shield. (Michael C and Eugene B, 2003).

It is also argued that a firm's total agency costs may in fact be reduced as a result of using debt in its CS. The contention is that raising debt exposes the firm to an external scrutiny or audit as lenders and financiers before providing funds will analyze and assess firm's finances, risks and management capability. These procedures reduce the owners total cost of monitoring and controlling its managers and encourages managers to behave in a manner more consistent with the shareholders wealth maximization. (Michael c and Eugene B, 2003)

Bankruptcy problems occur as a result of fixed interest and principal payment on debt; even though a firm might not formally become bankrupt, financial distress may cause serious operational and financial difficulties that depress its value; for example; Suppliers refuse to sell on credit, Key employees resign, Customers become reluctant to buy its product, Maintenance of Machinery and equipment is deferred Research and development projects are curtailed and Otherwise favorable capital investment opportunities are forgone. The greater the proportion of debt in the CS the higher the fixed financial charges, therefore the greater the probability that a decline in EBIT and cash flows will lead to bankruptcy or at least some form of financial difficulty. . (James C et al, 2008).

As a modest proportion of debt are included in the CS bankruptcy costs will be nominal with little or no effect of either debt or equity capital. Then as the proportions of debt become large and large its K_e and K_d will rise at an increasing rate. This reflects the impact of bankruptcy costs on investors required rates of return. K_e is affected more than the K_d because debt claims have a more priority over equity; financial distress can reduce the value of equity fully before debts claims will be impaired. As the debt ratio becomes so high that the threat of bankruptcy is imminent, bankruptcy costs cause K_e and K_d

curves to turn sharply upward. Beyond that point the firm simply cannot borrow or obtain additional equity funds in the capital markets. . (James C et al, 2008).

2.1.3 Pecking order theory

Pecking order theory of capital structure states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing (retained earnings and the effects of depreciation) before resorting to any form of external funds. Internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock. (Myers, 1984) This order reflects the motivations of the financial manager to retain control of the firm (since only common stock has a "voice" in management), reduce the agency costs of equity, and avoid the seemingly inevitable negative market reaction to an announcement of a new equity issue.s(Hawawini & Viallet, 1999).

Implicit in pecking order theory are two key assumptions about financial managers. The first of these is *asymmetric information*, or the likelihood that a firm's managers know more about the company's current earnings and future growth opportunities than do outside investors. There is a strong desire to keep such information proprietary. The use of internal funds precludes managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them. The second assumption is that managers will act in the best interests of the company's existing shareholders. The managers may even forgo a positive-NPV project if it would require the issue of new equity, since this would give much of the project's value to new shareholders at the expense of the old. (Myers & Majluf, 1984)

2.2 Conceptual framework

The aim of this research is to determine the impact of capital restructuring on the share price of public limited companies. Share price as the dependent variable and equity and debt as the independent variables.

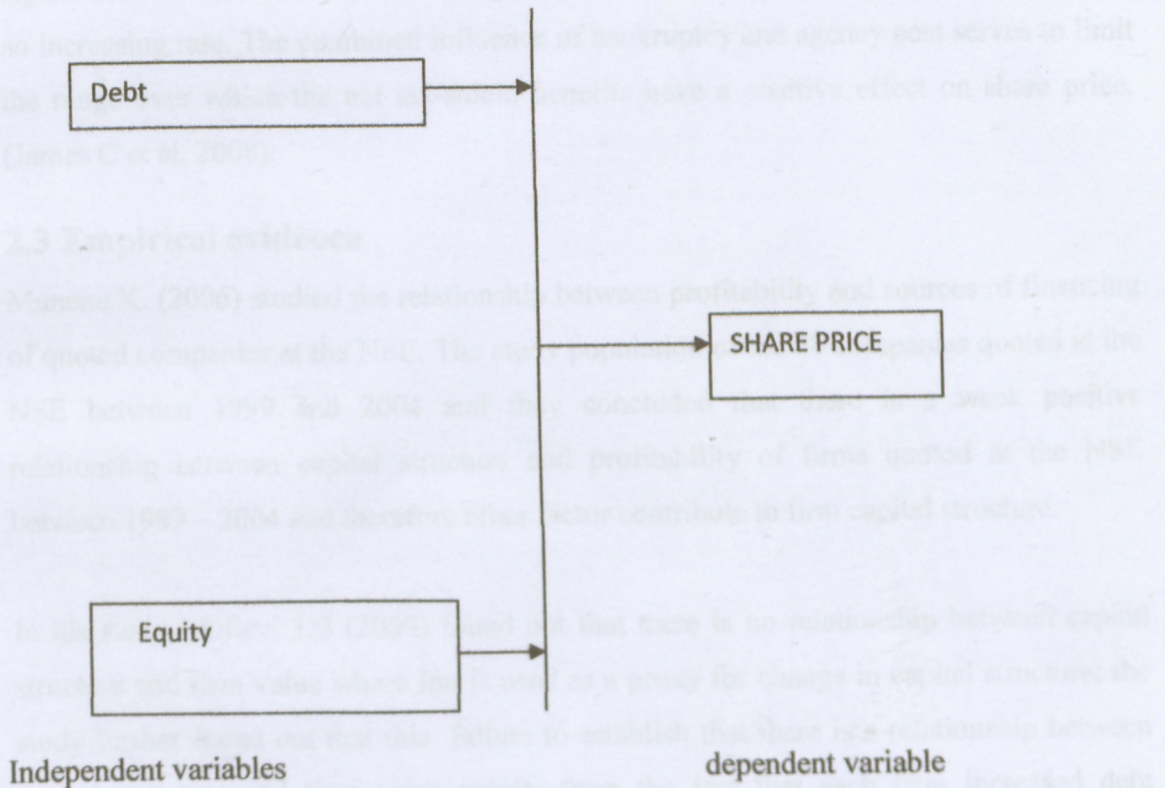


Figure 1: conceptual framework

2.1.1 Bankruptcy, agency cost and taxes

If one allows for bankruptcy costs, and if the probability of bankruptcy increases at an increasing rate with the use of financial leverage, extreme leverage is likely to be penalized by lenders and investors. In a world of both bankruptcy costs and taxes, an optimal capital structure would exist even if all of the other behavior tenets of the m & m position held. The first employed cost of capital of a firm would decline as financial leverage was first employed because of the net tax advantage of debt. Gradually,

however, the prospect of bankruptcy would become increasingly important, causing the cost of capital to decrease at decreasing rate as financial leverage increased. As financial leverage became extreme, the bankruptcy effect might more than offset the tax effect, causing the cost of capital of a firm to rise. (James C et al, 2008)

The presence of agency, or monitoring, cost accentuates this rise in the cost of capital. Again with increase in financial leverage beyond some threshold, agency cost increase at an increasing rate. The combined influence of bankruptcy and agency cost serves to limit the range over which the net tax-shield benefits have a positive effect on share price. (James C et al, 2008).

2.3 Empirical evidence

Munene K. (2006) studied the relationship between profitability and sources of financing of quoted companies at the NSE. The study population of the 48 companies quoted at the NSE between 1999 and 2004 and they concluded that there is a weak positive relationship between capital structure and profitability of firms quoted at the NSE between 1999 – 2004 and therefore other factor contribute to firm capital structure.

In his study Mulievi J.B (2009) found out that there is no relationship between capital structure and firm value where Ipo is used as a proxy for change in capital structure; the study further found out that this failure to establish that there is a relationship between capital structure and firm value results from the fact that each firm increased debt financing along with equity by issue of shares to the public through Ipo (and sometimes retained earnings) as a result the debt ratio did not change along with MPS , EPS, net total earnings.

Fitims D & Media D (2008) carried out a research in Macedonia to analyze factors influencing companies' leverage of Macedonian listed and unlisted companies. They selected two samples. The first one was from Macedonian non-financial companies registered on Macedonian Stock Exchange covering the period of 2005-2007 and comprised 32 listed companies. The second one was from Macedonian small and medium businesses covering the period of 2005-2007 and comprised 30 companies. The data used

for the empirical analysis were derived from companies' annual reports. They analyzed whether the decision of the companies concerning the leverage was in conformity with the theoretical expectations proclaimed in previous studies and whether there was any disparity between listed and unlisted companies. Profitability, tangibility, size, growth rate and non-debt tax shield were used as independent variables, while leverage was the dependent variable. Their findings were consistent with implications first of all of, Pecking Order Theory and then of Static-Trade off Theory. Agency cost theory was not confirmed in their results, except at size variable for listed companies. On average, they noted, Macedonian unlisted companies used more debts than listed companies. Tangibility, size, non-debt tax shield, and growth were confirmed not having effect in capital structures decisions for Macedonian listed companies.

Mei Qiu & Bo La (2009) studied the relation between capital structure and firm characteristics in Australia in 367 firms between 1992 and 2006; the researchers' findings indicated that debt asset ratio was positively related to asset tangibility but inversely related to growth prospects and business risk measured by unlevered beta of equity. They also found that although levered firms were generally more profitable than unlevered, profitability decreases the debt ratio of levered firms. They did not find that firm size affects the capital structure of Australian firms. The results were consistent with the pecking order and the agency cost theories but contradicted the tradeoff theory.

Hatfield, G.B. et al, 1994 studied the effect of firm's leverage ratio and industry leverage ratio on market value. They used a sample of 183 firms (debt issue announcements) between January 1982 to December 1986, in Mississippi, USA. They examined the hypothesis by classifying firms' leverage ratios as being above or below their industry average prior to announcing a new debt issue. They then tested whether the firms' leverage would have an effect on market returns for shareholders.

The results from the study showed a relationship between industry membership and capital structure. Firms in a given industry tend to have similar capital structures and that the relationship between a firm debt level and that of industry did not appear to be of concern to the market.

2.4 Summary

Overall, the results suggest that current theories of capital structure all contribute to decision making practice though certain aspects of the theories are strongly refuted.

Importantly, finance directors' opinions are not fully consistent with either of the main theories. There are several possible reasons for this. Clearly, the capital structure decision is a complex, multi-dimensional problem. Humans have restricted rationality so it would be surprising if all factors were considered. In addition, some responses may reflect organizational slowness in adapting to changes in the relevant environment.

Moreover, financing decisions are likely to be the product of complex group processes. Capital structure theory is not (yet) able to capture these complexities due to lack of the use of dynamic regression models in methodology to capture or recognize various relationships over time.

Pecking order theory starts with asymmetric information as managers know more about their companies' prospects, risks and value than outside investors. Asymmetric information affects the choice between internal and external financing and between the issue of debt or equity. There therefore exists a pecking order for the financing of new projects.

Asymmetric information favors' the issue of debt over equity as the issue of debt signals the boards confidence that an investment is profitable and that the current stock price is undervalued (were stock price over-valued, the issue of equity would be favored). The issue of equity would signal a lack of confidence in the board and that they feel the share price is over-valued. An issue of equity would therefore lead to a drop in share price. This does not however apply to high-tech industries where the issue of equity is preferable due to the high cost of debt issue as assets are intangible.

A number of factors influence the financing decisions of firms. Most of those decisions are industry and firm specific. Due to such Leeway in the choice of capital structure, it

has become increasingly difficult to recommend a comprehensive and conventional capital structure policy for firms. Such contentious surroundings capital structure has been termed by Myers (1984) as the “capital structure puzzle”. Academicians have come up with different perspectives to try and address various facets of capital structure but still, subsequent scholars have always documented limitations of earlier studies.

This chapter outlines the research methodology. The study defines population as all firms quoted at NSE. Therefore, this chapter outlines: selection of the sample, data collection instruments and data collection procedures and data analysis. It also explains how the researcher carried out the study to achieve the study objectives. It consists five sections, section 3.0 introduction, section 3.1 research design, section 3.2 population and study sample, section 3.3, data collection methods and section 3.4 data analysis

3.1 Research Design

The study adopted an event study methodology to analyze the effect of rights issue on returns. Event study methodology measures the impact of a specific event on the value of a firm. It has been used extensively in finance to analyze how a firm is affected by activities in the market and it is highly dependent on the efficiency of the market. In most cases, the market will be assumed to be efficient, i.e. the stock prices reflect all the available information, (Johansen (2007)). The advantage of using event study methodology is that the expected effects of the event will be fully reflected in the stock prices, assuming the market is efficient.

3.2 Population

The research population represents the elements that will be studied in the research. These consist of all the 51 firms quoted on the Nairobi securities exchange as information for these firms is likely to be easily available.

3.3 Sample and sample selection

The researcher carried out a purposive survey of 51 firms quoted on the NSE and identified 50 firms for including the firms. At the period under study NSE had 58 listed

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology. The study outline population as all firms quoted at NSE. Therefore, this chapter outline: selection of the sample, data collection instruments and data collection procedures and data analysis. It also explains how the researcher carried out the study to achieve the study objectives. It consist five sections, section 3.0 introduction, section 3.1 research design, section 3.2 population and study sample, section 3.3, data collection methods and section 3.4 data analysis

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3.2 Population

The research population represents the elements that will be studied in the research. These consist of all the 58 firms quoted on the Nairobi securities exchange as information for these firms is likely to be easily available.

3.3 Sample and sample selection

The researcher carried out a census survey of all the firms quoted on the NSE and therefore no need for sampling the firms. At the period under study NSE had 58 listed

companies whose shares trade at the NSE, which will be the population. (See appendix II)

3.4 Data Collection Methods

The data collected in this study was quantitative in nature, mainly secondary data from publications by both the NSE and other financial statements of companies for the period 2002- 2011 including Statement of financial position, Statement of income and Directors reports. Concentrating on their capital adopted at that particular period and their corresponding Total Assets (Debt plus Equity). The data collected was mainly be quantitative data relating to the capital structure and Total Assets at that particular point in time of the firms on the NSE. The data will be obtained mainly from CMA and NSE publications such as the NSE handbook, as well as publications by the companies such as the annual reports of the companies. As the data was secondary, the researcher will organize and tabulate to summarize and carry out the necessary analysis.

3.5 Data Analysis

From the secondary data sources, the stock returns fifteen days before rights issue is announced, fifteen days after announcement and fifteen days after the rights was summarized in table form to facilitate data analysis. Statistical package for social sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis is very systematic. The event date will be defined as $t=0$, while the estimation period is 15 days starting from 30 days before rights issue to 15 days after rights issue. The total period covered will be 45 days.

This study adopted the market model, which provides a linear specification of the return of the given stock to the return of the market portfolio. This model is preferable because it reduces the variance of abnormal returns by removing the portion of the stock return that is related to variation in the market return, Adelegan, (2009). The market model is specified as:

$$R_{it} = a_i + b_i R_{mt} + e_{it} \quad (1)$$

Where: R_{it} and R_{mt} are the returns on stock i and the market respectively at time period t .
 e_{it} is the error term.

Equation (1) is estimated over a period of 30 days (approximately 1 month) before the event to estimate the normal returns.

The abnormal return is obtained as:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt})$$

Abnormal returns are averaged across the observations for period t for all events N using:

$$AR_t = 1/N \sum AR_{it}$$

The period for calculating the abnormal returns was 15 days before the rights issue to 15 days after the rights issue.

The abnormal return was tested for significance using the t tables.

To measure the variability of returns before and after rights issue, the variance and standard deviation of returns was calculated before and after the rights issue using the same periods used in estimating the normal and abnormal returns.

$$\text{Variance} = \sum (R_i - E(R_i))^2 / N$$

Where:

R_i is the return on a given day (percentage change in stock price)

$E(R_i)$ is the expected return (being the average daily returns)

N is the number of days.

The standard deviation, which measures risk, will be the square root of the variance.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the data findings on stock market reaction to announcement of company's rights issues by analyzing the share/stock prices and market return around rights issues announcement. These data were collected from the NSE offices. Analysis involved evaluation of abnormal return and security variability around rights issue. The study covered a period of 2002 to 2011.

4.2 T –statistics for 30 days surrounding event date (rights issue)

In order to determine the sensitivity of the stock price to rights issue announcement, the researcher calculated the T-statistics for the 15 days before, during rights issue announcement and after rights issue announcement (appendix I), if the T – value was close to 2 this was an indication that the share were sensitive to rights issue announcement, from the finding shown in the above table, it was found that on 15 date before rights issue announcement the T- statistics was negative an indication that the share price were insensitive to rights issue announcement on approaching the 8th date before rights issue announcement, there was a rise in and it was positive on reaching the 5th day before rights issue announcement the market was found to be sensitive to rights issue announcement an indication that there were some speculation by investor , on reaching the event date it was found that the share price were so sensitive to rights issue announcement as shown by t-value of 2.367, this continued up to second day after the announcement , this an indication that during few day before and during the rights issue announcement and after rights issue announcement the share price were very sensitive to rights issues announcement . This shows that share price are sensitive to right issues announcement.

4.3 Market performance during rights issue announcement

Average Abnormal Returns

The Table shown in appendix II presents the abnormal returns for the entire market following the rights issue announcements shows that t-2 to t1 had a positive abnormal returns of values greater than 1; 3.596, 2.527, 8.969 and 3.787 respectively. The period between t2 to t12 had average abnormal return of less than 1 which means that no investor benefitted from above normal returns pointing at market adjusting to the rights issue. This implies that the market do not react fast to rights issues which could point to efficiency, but not perfectly efficient. However, period between between t-15 to t1 had above normal returns meaning that the investors enjoyed above normal returns. This could point at insider trading just before the rights issues announcement.

4.4 Security Returns Variability (SRV)

Average Security Returns Variability

The study sought to establish the variability of the stock return following rights issue announcements thus determine the market reaction to right issues announcement. The information presented in appendices III shows that that the variability in stock prices does increase erratically with time though there is more variability in the days preceding and after rights issue announcement. However, the t-significance shows 15 of the statistics were significant; 10 of which were in the post-announcement period. 6 out of the 10 were between t0 and t15. The announcement day had an average ASRV of 3.9164 at 95%

confidence level. Apart from day t1, t11, t15, t12, t15, t16, t22, t24, t26, t28 and t29, other periods had ASRV of less than 1. Results support the semi-strong form efficient market hypothesis since stock prices adjust so fast to public information that no investor can earn an above normal return by trading on the announcement day and period thereafter.

Average Value of ASRV for Rights issues Announcement

Estimation Period	Security Return Variability
t_{-15} to t_{+15}	4.3362
t_{-15} to t_{-1}	1.0607
t_0 to t_{+15}	3.4875
t_0 to t_{+1}	3.8742
t_{-1} to t_1	3.3604
t_{-3} to t_{+3}	1.8787
t_{-7} to t_{+7}	1.0753

To analyze the speed at which the stock market absorbs the rights issue announcement in its prices, the study presented the average security return variability across the announcement periods. As indicated by the table, stock variability was more in post-announcement period than pre-announcement period; while t_{-15} to t_{-1} had ASRV of 1.0607, t_0 to t_{+15} had ASRV of 3.4875. Between t_0 and t_1 the ASRV was 3.8742, t_{-1} to t_1 had a variability of 3.3604. Day t_{-3} to t_3 had ASRV of 1.8787 and t_{-7} to t_7 had ASRV of 1.0753. Therefore, the stock market positively absorbed right issues contained information positively.

CAR Across the Event Windows

Days	Mean of CAR	Variance
t ₋₂₀ to t ₋₂₁	3.200135	2.698851
t ₋₂₀ to t ₋₁	11.606	54.117
t ₀ to t ₁	30.50557	16.91172
t ₁ to t ₁	29.065	26.12547
t ₊₂ to t ₊₂₀	22.383	1.745567
t ₊₂₀ to t ₊₃₀	29.035	57.56523
t ₋₃₀ to t ₊₃₀	16.28562	98.38799

To track abnormal returns over a number of trading days, cumulative abnormal return (CAR) is computed through out the event period for the rights issues as presented in table above from the table, it can be noted that CAAR for the sampled stocks are positive during entire event window. From the results shown in table above the mean CAAR was found to be positive in the period after right issues an indication that the trading volume reacted positively towards the rights issues in the period before rights issue the mean CAAR was found to have both negative value and indication the market was not sensitive to rights issues, in the results on t- value the study found that period surrounding the event date the value of t was close to 2 an indication that trade volume were very sensitive to rights issues by companies .

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

From the findings on the sensitivity of the stock price to rights issue announcement, the study found that during rights issue announcement and after rights issue announcement, T -value was close to 2 this was an indication that the share were sensitive to rights issue announcement, on nearing the announcement date the market was very sensitive to rights issue announcement which could be attributed to speculation by investor. From the findings on the abnormal returns for the entire market following the stocks rights issues announcements, the study found that $t-2$ to $t1$ had a positive abnormal returns of values greater than 1; 3.596, 2.527, 8.969 and 3.787 respectively. The period between $t2$ to $t12$ had average abnormal return of less than 1 which means that no investor benefitted from above normal returns pointing at market adjusting to the rights issue. This implies that the market do not react fast to rights issues which could point to efficiency, but not perfectly efficient. The period between between $t-15$ to $t1$ had above normal returns meaning that the investors enjoyed above normal returns. This could point at insider trading just before the rights issues announcement. On the variability of the stock return following rights issue announcements thus determine the market reaction to rights issues announcement. The study found that the variability in stock prices does increase erratically with time though there is more variability in the days preceding and after rights issue announcement. The t -significance shows 15 of the statistics were significant; 10 of which were in the post-announcement period. 6 out of the 10 were between $t0$ and $t15$. The announcement day had an average ASRV of 3.9164 at 95% confidence level. The results support the semi-strong form efficient market hypothesis since stock prices adjust so fast to public information that no investor can earn an above normal return by trading on the announcement day and period thereafter. On the speed at which the stock market absorbs the rights issue announcement in its prices, the study found that stock variability was

more in post-announcement period than pre-announcement period; while t-15 to t-1 had ASRV of 1.0607, t0 to t15 had ASRV of 3.4875. Between t0 and t1 the ASRV was 3.8742, t-1 to t1 had a variability of 3.3604. Day t-3 to t3 had ASRV of 1.8787 and t-7 to t7 had ASRV of 1.0753. Therefore, the stock market positively absorbed right issues contained information positively. To track abnormal returns over a number of trading days, cumulative abnormal return (CAR) is computed through out the event period for the rights issues as presented in table above from the table, it can be noted that CAAR for the sampled stocks are positive during entire event window. From the results shown in table above the mean CAAR was found to be positive in the period after right issues an indication that the trading volume reacted positively towards the rights issues in the period before right issues the mean CAAR was found to have both negative value and indication the market was not sensitive to rights issues, in the results on t- value the study found that period surrounding the event date the value of t was close to 2 an indication that trade volume were very sensitive to rights issues by companies .

5.2 Conclusions

From the findings the study concludes that the Kenyan market reacts positively to rights issue announcements, it was found that there was an increase in volumes of shares traded after rights issue as compared to those before the rights issue. The study also concludes that managers of the companies sought rights issues to encourage investors to purchase their stock which appeared cheaper. This study showed that there were positive mean returns with respect to rights issue announcement , this was in agreement with the signaling hypothesis which stated that managers of companies' issues rights to act as a means of passing information to stock holders and potential investors.

5.3 Policy implication

The key assumption of the event study method was the ability to identify the event date. In this case of rights issue, two key event dates did occur; the announcement date and the effective date. The data of announcement date was not complete so the effective rights issue date was defined as the event date. Although rights issue announcement already

contained information regarding future earnings and dividends expectations by management, the inclusion of these firms could have resulted in an overstatement of the effect of the rights issue announcement on stock prices. The comparisons done were based purely on price trends and did not account for changes in the overall market conditions. Other market conditions could have arisen, which had effects on the general activity of shares in the market and on the returns, hence there was need to make use of the market model.

5.4 Limitations of the study

The researcher is expected to encounter certain obstacles that may have affected the results or outcome of the study. These obstacles may be controllable, uncontrollable or both. One of the controllable obstacles included miscomputations by the researcher from the raw data contained in the publication by the companies and NSE. This obstacle was checked through double checking before data was input in the computer.

The study was limited to determine the effect of a rights issue on market returns of firms listed at the Nairobi securities exchange and was limited to firms listed companies in the NSE that have had rights issues for the period of 10 years starting from year 2002 to 2011.

The other limitation, uncontrollable encountered by the researcher was the reliability of the data used. As the data was obtained from financial statements published by the companies and the NSE, there is likelihood of the data being a bit subjective as it is prepared with certain audience in mind. The data may suffer from window-dressing or creative accounting to please the shareholders. The researcher however had no option but to assume that the regulatory bodies such as CMA, ICPAK and NSE disclosure requirements were met by the reporting firms listed at NSE.

The study was based on a ten year study period from the year 2002 to 2011. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

In the study the researcher may have carried out wrongful analysis of the data hence ending up to wrong conclusions. This limitation was avoided by the researcher relied on a statistical package to analyze the data and used the SPSS package. The role of the researcher was to interpret the data as the analysis was done by the computer. The interpretation and conclusions were based on computer generated analysis which is likely to be more accurate.

5.5 Areas of Further Research

This study recommends that further studies be done on the rights issues effect on dividend policies of firms. This owes to the fact that rights issues would increase the number of shares without a consequent increase in market capitalization and how the same affect dividend paid per the increased number of outstanding shares would augment this study in answering the question on whether rights issue practices are relevant or not.

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DAYS	t	Sig.	Mean Difference	Lower	Upper
-15	-5.51	.001	-.01045	-.0185	-.0013
-14	-4.44	.000	-.00786	-.0145	-.0019
-13	-3.23	.005	-.00218	-.0073	-.0025
-12	-2.76	.007	-.00209	-.0058	-.0044
-11	-2.52	.010	-.00251	-.0074	-.0054
-10	-2.26	.010	-.00010	-.0086	-.0084
-9	-2.13	.036	-.00237	-.0081	-.0033
-8	-1.283	.053	-.00456	-.0120	-.0040
-7	-1.222	.027	-.00345	-.0099	-.0050
-6	-1.651	.024	-.00451	-.0104	-.0034
-5	-1.919	.011	-.00628	-.0138	-.0013
-4	-1.989	.022	-.00408	-.0118	-.0008
-3	-1.518	.017	-.00657	-.0166	-.0034
-2	-2.711	.004	-.00470	-.0114	-.0020
-1	-2.641	.000	-.00300	-.0100	-.0029
0	-2.267	.023	-.00292	-.0113	-.0056
1	-2.258	.000	-.00707	-.0182	-.0011
2	-2.228	.029	-.00301	-.0120	-.0018
3	-1.588	.001	-.00452	-.0117	-.0039
4	-1.343	.001	-.00142	-.0110	-.0082
5	-1.274	.001	-.00177	-.0067	-.0011

APPENDIX I

T-STATISTICS FOR 30 DAYS SURROUNDING EVENT DATE (RIGHTS ISSUE)

DAYS	t	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
-15	-.651	.027	-.01016	-.0188	-.0015
-14	-.144	.009	-.00086	-.0146	.0129
-13	-.333	.048	-.00218	-.0173	.0129
-12	-.876	.047	-.00269	-.0098	.0044
-11	-.652	.033	-.00251	-.0114	.0064
-10	-.026	.010	-.00010	-.0086	.0084
-9	-.958	.036	-.00237	-.0081	.0033
-8	1.283	.025	-.00496	-.0139	.0040
-7	1.422	.025	-.00343	-.0099	.0030
-6	1.451	.024	-.00451	-.0144	.0054
-5	1.919	.011	-.00626	-.0138	.0013
-4	1.989	.022	-.00498	-.0108	.0008
-3	1.518	.017	-.00657	-.0166	.0034
-2	2.711	.034	-.00470	-.0214	.0120
-1	2.641	.040	-.00305	-.0140	.0079
0	2.367	.023	-.00295	-.0215	.0156
1	2.538	.005	-.00307	-.0162	.0101
2	2.358	.029	-.00201	-.0150	.0109
3	1.688	.021	-.00492	-.0137	.0039
4	1.341	.042	-.00142	-.0110	.0082
5	1.274	.031	.00117	-.0087	.0111

6	1.253	.006	-.00120	-.0121	.0097
7	1.317	.009	-.00158	-.0131	.0099
8	1.392	.202	-.00665	-.0177	.0044
9	1.931	.379	.01756	-.0259	.0610
10	-1.358	.211	-.02334	-.0630	.0163
11	1.228	.056	-.00929	-.0189	.0003
12	1.624	.143	-.00870	-.0210	.0037
13	1.895	.397	-.00368	-.0131	.0058
14	-1.295	.231	-.00615	-.0171	.0048
15	.515	.621	.00244	-.0085	.0134

APPENDIX II

MARKET PERFORMANCE DURING RIGHTS ISSUE ANNOUNCEMENT

AVERAGE ABNORMAL RETURNS

k-Days	AAR	T	Sig. (2-tailed)
-30	1.158	.816	.451
-29	1.842	2.180	.081
-28	1.279	1.342	.237
-27	-0.924	-1.000	.363
-26	-0.756	-.267	.800
-25	0.703	.951	.385
-24	1.266	1.410	.218
-23	1.369	.866	.426
-22	0.073	-.635	.554
-21	0.030	-1.230	.273
-20	1.793	.361	.733
-19	1.465	-.523	.623
-18	3.386	2.191	.080
-17	1.285	1.210	.280
-16	0.092	.735	.495
-15	0.745	.261	.805
-14	0.774	.565	.596
-13	0.266	1.066	.335

-12	0.686	4.912	.004
-11	0.607	2.378	.063
-10	0.597	2.938	.032
-9	0.705	3.022	.029
-8	0.095	1.120	.314
-7	0.317	2.515	.053
-6	0.326	.059	.955
-5	0.627	.262	.804
-4	0.814	1.926	.112
-3	0.864	1.390	.223
-2	3.596	2.629	.047
-1	2.527	1.967	.106
0	8.969	1.834	.126
1	3.787	-1.841	.125
2	-2.303	-2.758	.040
3	-1.853	-1.660	.158
4	-0.390	-1.346	.236
5	-2.005	.656	.541
6	-1.316	-1.318	.245
7	-0.801	.365	.730
8	-1.089	-1.637	.163
9	-0.705	-1.380	.226
10	-0.799	-.131	.901
11	-1.424	.993	.366
12	-1.359	.171	.871
13	1.691	.974	.375

14	-0.087	-0.869	.424
15	-0.755	-1.404	.219
16	0.303	-.104	.921
17	-1.194	-1.196	.285
18	-0.055	-.537	.614
19	0.866	.756	.483
20	0.561	1.020	.355
21	0.036	.438	.680
22	-0.784	-1.897	.116
23	-1.141	-1.144	.304
24	0.212	.081	.939
25	-0.495	-.167	.874
26	0.374	-.024	.981
27	-0.287	-.217	.837
28	0.686	1.869	.121
29	6.073	.716	.506
30	-0.461	-.280	.790

APPENDIX III

SECURITY RETURNS VARIABILITY (SRV)

AVERAGE SECURITY RETURNS VARIABILITY

Day	Mean (ASRV)	STDEV	T-stat	Sig
-30	0.4375	0.5234	2.047	.451
-29	1.3938	1.8582	1.837	.081
-28	0.5875	0.6349	2.267	.237
-27	0.7102	0.5702	3.051	.363
-26	1.0529	1.1117	2.320	.800
-25	0.3839	0.4850	1.939	.385
-24	0.2612	0.2629	2.434	.218
-23	0.4774	0.4699	2.488	.426
-22	0.3698	0.3010	3.009	.554
-21	0.3845	0.5874	1.603	.273
-20	0.6196	0.7380	2.057	.733
-19	0.4158	0.5269	1.933	.623
-18	0.3621	0.5936	1.494	.080
-17	0.4290	0.5200	2.021	.280
-16	0.2057	0.1282	3.932	.495
-15	0.1673	0.1663	2.465	.805
-14	1.0176	1.2111	2.058	.596
-13	1.7646	3.4017	1.271	.335
-12	1.2849	2.0187	1.559	.004
-11	0.3819	0.6810	1.374	.063
-10	2.6129	3.4394	1.861	.032

-9	0.5799	0.5939	2.392	.029
-8	1.4308	1.4331	2.446	.314
-7	0.5264	0.5191	2.484	.053
-6	1.2743	1.7801	1.754	.955
-5	0.3490	0.3457	2.473	.804
-4	0.2696	0.4164	1.586	.112
-3	0.8296	0.7799	2.605	.223
-2	1.0894	0.8281	3.222	.047
-1	2.3329	2.7111	2.108	.106
0	4.5166	3.9164	2.825	.126
1	3.2318	4.1131	1.925	.125
2	0.8559	0.5396	3.886	.040
3	0.2945	0.1820	3.962	.158
4	0.2251	0.2760	1.997	.236
5	0.1447	0.2029	1.747	.541
6	0.0607	0.0271	5.491	.245
7	0.1299	0.0981	3.244	.730
8	0.0411	0.0397	2.540	.163
9	0.0692	0.1027	1.651	.226
10	0.1885	0.1639	2.817	.901
11	43.0224	85.8135	1.228	.366
12	1.5179	2.3342	1.593	.871
13	0.1160	0.1066	2.666	.375
14	0.2478	0.3888	1.561	.424
15	1.1385	1.5994	1.744	.219
16	2.3328	4.4154	1.294	.921

17	0.7888	0.6696	2.886	.285
18	0.2792	0.3248	2.105	.614
19	0.2432	0.2181	2.732	.483
20	0.3464	0.5638	1.505	.355
21	0.2046	0.0673	7.444	.680
22	0.7916	1.0715	1.810	.116
23	0.1092	0.0663	4.038	.304
24	0.8801	1.5974	1.350	.939
25	0.0676	0.0470	3.521	.874
26	0.9100	1.5537	1.435	.981
27	0.4095	0.4468	2.245	.837
28	1.2688	1.3201	2.354	.121
29	17.2388	33.5374	1.259	.506
30	0.2198	0.2115	2.546	.790

AUTOMOBILES AND ACCESSORIES

1. Car and General (K) Ltd
2. CMC Holdings Ltd
3. Silver Africa Ltd
4. Marshall (S.A.) Ltd

BANKING

1. Barclays Bank Ltd
2. CFC Samba Holdings Ltd
3. Diamond Trust Bank Kenya Ltd
4. Housing Finance Co Ltd
5. Kenya Commercial Bank Ltd
6. National Bank of Kenya Ltd
7. NIC Bank Ltd (K)
8. Standard Chartered Bank Ltd
9. Equity Bank Ltd
10. The Co-operative Bank of Kenya Ltd

APPENDIX IV
LISTED COMPANIES AT THE NSE BY SECTOR

AGRICULTURAL

1. Ltd Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya

COMMERCIAL AND SERVICES

1. Express Ltd
2. Kenya Airways Ltd
3. Nation Media Group
4. Standard Group Ltd
5. TPS Eastern Africa (Serena) Ltd
6. Scangroup Ltd
7. Uchumi Supermarket Ltd
8. Hutchings Biemer Ltd

TELECOMMUNICATION AND TECHNOLOGY

1. AccessKenya Group Ltd
2. Safaricom Ltd

AUTOMOBILES AND ACCESSORIES

1. Car and General (K) Ltd
2. CMC Holdings Ltd
3. Sameer Africa Ltd
4. Marshalls (E.A.) Ltd

BANKING

1. Barclays Bank Ltd
2. CFC Stanbic Holdings Ltd.
3. Diamond Trust Bank Kenya Ltd.
4. Housing Finance Co Ltd.
5. Kenya Commercial Bank Ltd
6. National Bank of Kenya Ltd.
7. NIC Bank Ltd Ord
8. Standard Chartered Bank Ltd
9. Equity Bank Ltd
10. The Co-operative Bank of Kenya Ltd

INSURANCE

1. Jubilee Holdings Ltd
2. Kenya Re-Insurance Corporation Ltd
3. Pan Africa Insurance Holdings Ltd
4. CFC Insurance Holdings
5. British-American Investments Company (Kenya) Ltd.

INVESTMENT

1. City Trust Ltd
2. Olympia Capital Holdings ltd
3. Centum Investment Co Ltd
4. Trans-Century Ltd

MANUFACTURING AND ALLIED

1. B.O.C Kenya Ltd Ord
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Mumias Sugar Co. Ltd
6. Unga Group Ltd
7. Eveready East Africa Ltd
8. Kenya Orchards Ltd
9. A. Baumann CO Ltd

CONSTRUCTION AND ALLIED

1. Athi River Mining
2. Bamburi cement ltd
3. Crown berger ltd
4. East African cables ltd
5. E .A. Portland cement limited

ENERGY AND PETROLEUM

1. KenolKobil Ltd
2. Total Kenya Ltd
3. KenGen Ltd
4. Kenya Power & Lighting Co Ltd