

**THE EFFECT OF RIGHTS ISSUE ANNOUNCEMENT ON STOCK RETURNS
OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE**

BY

CHRIS SAKWA D61/73152/2012

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ABSTRACT

Majority of the companies seeking to raise additional equity to finance their investment activities raise the additional equity through subsequent equity offerings, the most common of which is rights issue. Rights issue announcements like other event announcements are perceived to have information content which is likely to affect trading activities and return on stocks. This study seeks to investigate the effect of rights issue announcement on stock returns for companies listed at the Nairobi Securities Exchange. The study covers a period of ten years from 2003 to 2012.

A traditional event study approach has been adopted for this study. The mean adjusted returns model as specified in Brown and Warner (1985) has been used in this study. This model uses the mean return over the estimation period as the normal return for the security had the event not taken place. A study of 13 out of the 61 companies listed on the NSE that rights issues during this period was done. A two tailed two t-statistic at 95% confidence level was done to test for statistical significance of the mean abnormal returns.

The results of the study show that stock returns react positively to rights issue announcements. A positive mean abnormal return of 0.0707 was recorded over the event period with the highest abnormal returns being on day t+2. Further the market does not adjust efficiently to information releases. There is a statistical difference between mean abnormal returns observed during the event period and estimation period for eighteen events and no statistical significance for one event. It is recommended that the Capital markets intensifies supervision of market participants to enforce compliance to market regulations and also implement education programmes to raise awareness among market participants and at the same time reduce information asymmetry.