INFLUENCE OF ANNOUNCED EARNINGS PER SHARE ON THE SHARE PRICES OF COMPANIES QUOTED IN THE NAIROBI SECURITIES EXCHANGE

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A Management Research Project Submitted in Partial Fulfilment of the Requirements for the Degree of Master of Business Administration (MBA) School of Business, University of Nairobi.

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Declaration by the Candidate

This Research Project is my original work and has not been presented or published for the award of any degree in this or any other university.

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Declaration by the Supervisor

This Research Project has been submitted for Examination with my approval as a University Supervisor , ,

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DEDICATION

I dedicate this project to my parents for their great sacrifice and investment to ensure the success of my education through the provision of the required fees and their continuous encouragement.

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ABSTRACT

Earnings Per Share is a key tool in the evaluation of the performance of a company in terms of the returns to shareholders. The Impact of Earnings Per Share (EPS) on stock prices is therefore an area of interest to researches, investors and shareholders in seeking to understand the variables behind the movement of the stock prices. Small and Brown (1968) noted the drifting of share prices share prices upon announcement of the earnings while Fama (1970) on theory on Efficient Market Hypothesis tried to understand the pattern of the share prices in reaction to information. Various studies have been done to understand the reaction of the stock prices to the announcements by companies, Mohammed (2010) established that announced earnings have an effect on the prices, Mbaka (2010) studied on the effect of dividend declarations and Odumbe (2010) studied on the effect of bonus announcements establishing the facts of the stock prices reacting to announcements. In this paper the research was to determine the effect of the announced earnings per share on the share prices of companies listed in the Nairobi Securities Exchange. The aim of this research was to find out if there is any effect on the announced earnings per share on the share prices of the companies listed on the Nairobi Securities Exchange. The sample was the companies that have consistently appeared on the NSE-20 share index for a period of 5 years from 2006 to 2010.A statistical study using the Statitistical Package for Social Sciences (SPSS) was used to asses if there is an effect on the share prices of the companies by the announced earnings per share. The study found out there is an effect of the announced earnings per share on the share prices of companies on the Nairobi Securities Exchange. The effect was identified to be stronger after the announcement of the earning per share.

LIST OF ACRONYMS AND ABBREVIATIONS

ASRV- Average Stock Returns Variability

AAR- Analysis of Abnormal Returns

EMH-Efficient Market Hypothesis

CDS-Central Depository System

CDSC-Central Depository and Settlement Corporation

CMA-Capital Markets Authority

NSE-Nairobi Securities Exchange

EPS-Earning Per Share

IAS-International Accounting Standards

IASB- International Accounting Standards Board

ICF-International Finance Corporation

ISE-Indian Stock Exchange

CEO-Chief Executive Officer

KCB-Kenya Commercial Bank

NMG-Nation Media Group

NYSE-New York Stock Exchange

BAT(K)-British American Tobbacco

KENGEN-Kenya Electricity Generating Company

E.A.B.L-East African Breweries

KPLC-Kenya Power and Lightning Company

SPSS-Statistical Package for Social Sciences

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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Earnings per Share (EPS)

The Impact of announced Earnings per Share (EPS) on stock prices has often been the centre of interest to researchers, shareholders and investors. This is because EPS is one of the investment tools to evaluate a company's performance either in short term or long term, Seetharaman and John (2011).

Fundamental stock evaluation revolves primarily around the earnings a company generates for its shareholders. Earnings, of course, represent what the company makes through its operations over any particular period of time. While smaller, newer companies may have negative earnings as they establish themselves, their stock prices will reflect future earnings expectations. Larger companies are judged mainly on the earnings measure. Decreased earnings for these companies are likely to negatively impact their stock prices, (http://www.stockresearchpro.com). The shareholders portion on the earnings of the company is represented by Earnings Per Share (EPS) which can be considered as the portion in the earnings of a company that can be allocated per every equity share held.

The International Accounting Standards Board (IASB) in Accounting Standard No 33 (IAS No 33) defines earnings per share as the company's profit or loss attributable to ordinary equity holders. Company shares usually fall into two categories being the ordinary shares and the preference shares. In computing the earning per share, the preference shares are excluded.

The EPS is an important factor for deciding the health of any company and it influences the buying tendency in the market resulting in the increase or decrease in

the price of a particular stock. A company's Earnings per Share is significant as it is a good indicator of the financial health and performance of the company. Gordon (1959) pointed out that shareholder when buying shares usually pay for the earnings and the dividends.

Companies listed on the Nairobi Securities Exchange are required to comply with the International Accounting Standards and all listed companies in Kenya are required to comply particularly with the International Accounting Standard (IAS 33) on corporate reporting which requires the reporting on the earning per share results.

1.1.2 Common/Equity Shares

Corporations raise cash in two principal ways-by issuing equity or by issuing debt. The equity consists largely of common stock, though companies may also issue preferred stock. The owners of the common stock are referred to as the ordinary shareholders. The shares are said to be issued or subscribed when the corporation issues them to the public. The issued shares are entered into the company's books at their face value (or par value).

Corporations issue new shares to the public through initial public offering of stock which is also referred to as IPO. The New shares are issued to the public at an issue price. The issue price to the public almost always exceeds the face value of the share; the difference referred to as premium is entered in the company's accounts as share premium. However, existing shareholders can also sell the shares as secondary offering which is done through the Stock Exchange. The secondary offering does not attract new capital into the corporation.

The ordinary shares are held by various groups as individual investors, promoters, institutional investors which include financial institutions, mutual funds, foreign institutional investors, pension funds and the banks. The shareholders sell their shares

on the Stock Exchange at a price which is referred to as share price also called stock price.

1.1.3 NSE-20 Share Index

The Nairobi Securities Exchange uses a share index to measure the performance of the market. The indices used are the NSE 20-Share index and All Share Index (NASI) which was adopted in 2008. The NSE-Share Index is composed of 20 blue chip firms in the various sectors as listed in the attachments (Appendix 2) as at the end of December 2010, (www.nse.co.ke).

NSE 20-Share index uses geometric mean of the average prices of the selected shares of the blue chip companies. Though the increases or decreases of the index show the overall performance of the market it does not tell the individual performance of specific stocks, (www.nse.co.ke).

1.1.4 The Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the Kenyan Stock Exchange which is licensed and regulated by the Capital Markets Authority and has the mandate of providing a trading platform for listed securities and overseeing its Member Firms in Kenya (www.nse.co.ke/regulatory-framework). The Nairobi Securities Exchange is the contextual environment for this study.

The NSE started its operations in 1954 under the British Colonial government with trading restricted to the residents of the European community, after the independence of 1963, Africans and Asians were permitted to deal in the securities. In the 1980s, the Kenyan government in the design of policies in promotion and sustenance of economic growth created the regulatory body the "Capital Markets Authority Act"

CMA in 1989 which was later Market Authority Act was later amended to be known as the Capital Markets Act to regulate the trading of securities in Kenya.

There has been phenomenal growth its NSE-Share Index having recorded an all record high of 5030 points on Feb 1994.The NSE was then rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms. The government of Kenya through various legislations aimed at providing incentives to the investors in the capital markets has passed laws encouraging its development. In July 2000, the Central Depository System (CDS) Act was passed by parliament and sanctioned to by the president in August 2000.

The Central Depository and Settlement Corporation (CDSC) is in charge of managing the investor's accounts on the Nairobi Securities Exchange. The CDSC came as a result of the agreement signed between the NSE, the CMA investor, and several institutional investors on 26th July 2002. On Monday, 11 September 2006 live trading on the automated trading was started that relays market activities on real time basis. The automation has boosted investor confidence in the operations of the NSE. This was found out in the study conducted by Kihiu (2010) in her study on factors contributing to investor confidence in the NSE.

The Capital markets Authority exercises control and management of the NSE through guidelines and provision of the necessary legal framework and guidelines that make the body of rules to direct the players. The Kenya Gazette notice number 8512, and as mandated by the Capital Markets Authority Act, the CMA has set out the rules and guidelines to be followed in the approval and registration of the credit rating agencies. The CMA has set out through Kenya Gazette notice number 3362 pursuant to the CMA (Cap. 485A) Act the Guidelines on Corporate Governance to be followed by the listed companies on the Nairobi Securities Exchange. The guidelines establish the

rules of the game governing the practice. The CMA has also established enforcement rules through Capital Markets Authority Enforcement Manual, effective April 2008. With the above steps and measures, the CMA has provided the institutional and legal **framework** to build investor confidence in the companies listed on the Nairobi Securities Exchange.

1.1.5 Expected Influence of EPS on Share Prices

Gordon (1959) pointed out that investors pay three things when paying for the shares listed as (1) both the dividends and the earnings, (2) the dividends, and (3) the earnings. The shareholders interest in the company earnings is represented by the portion of the earning per share hence to understand the effect of the EPS on the Stock price is vital as the EPS is an important consideration when investors buy the shares of a company.

A study by Patel and Wolfson (1984) showed how fast prices move when new information is available to the market; they established that when a firm publishes its latest earnings, or dividend changes, major part of the adjustment occurs within 5 to 10 minutes of the announcement. Similar studies by Bernard and Thomas(1989) on stock performance following the announcement of unexpectedly good or bad news in the period 1974 to 1986 in the US found out that stocks with best earnings news outperform those with worst news. There definitely appears to be an impact over the stock prices following the announcement of company earnings.

The announcement of the earnings per share is a compliance requirement with Accounting Standards which requires that companies whose securities are listed and trading publicly should indicate the EPS (IAS 33) on their financial statements. The earnings per share is significant as it is a good indicator of the financial health of a company as it shows what portion of the earnings can be allocated to the investor.

The announcement of earnings precipitates a stock market reaction where the share prices drift in a certain manner, this was studied by per Ball and Brown (1968), Mohammed (2010) in his studies on the effect of the announcement of earnings found that stock prices do react to earnings announcement , Bernard and Thomas (1989) found out that share price reaction depends on the information content of the announced results, Patel and Wolfson (1984) in their study on adjustment of the share prices to earnings and bonus announcements found out that the reaction of the prices to the information is fast. In Compliance with IAS 33 the earnings per share is among the variables in the announced results. The EPS is likely to have either improved from the previous announced results or dropped. We seek to investigate the impact on the stock prices that is likely to result following the announcements of the Earnings Per Share results.

1.2 Statement of the Problem

Earning per share forms an important tool in the evaluation of company's performance in the eyes of investors as it reflects the portion an investor has or how much earnings he gets per his/her share held. The problem that needs to be investigated upon is whether the EPS on of the listed companies on the NSE has an effect on the price of the shares the investors hold. Since the investors hold shares which are represented by the EPS on the company's announced earnings there is ground to believe that the EPS has an effect on the share prices.

Though various studies have been done to understand the behavior of stock prices, not many works have been done in the area of understanding the effect of the earnings per share on the stock prices. Most of the studies have centered on the general aspects of the stock price patterns rather than on the impact of individual variable like EPS.

Various empirical studies have been undertaken to seek an understanding of the **factors** influencing the stock market prices. Mohammed (2010) studied on the effect **of** earnings announcements but did not identify the impact of specific items in the **announcements,** Paul and Brown (1968) on the Post Earnings Announcement Drift **noted the** momentum changes after announcements but didn't identify the variables behind the movements, Odumbe (2010) studied the effect of bonus announcements on **stock prices** but we also need to understand the effect of the earning per share. Fama (1965) established the theory of random walks that shares follow some kind of Pareto distribution, however the theory is quite general in that the specific variables that could support or work counter to the random walk behavior were not identified.

It therefore goes without saying that there is still a gap to explain on the effect the announced earnings per share bears on the stock prices. Understanding this effect of the EPS on the NSE share prices will add to the available body of knowledge on behavoiur of share prices, help investors on the NSE understand the variables behind share prices and motivate managers to maximize earnings for maximization of shareholders wealth. This is the ground justifying the cause for this study. In seeking **to** understand this problem of predicting stock prices with the focus on the effect of the earnings per share, the study will be on the shares of companies listed on the Nairobi Securities Exchange.

1.3 Objective of the Study

To determine the effect of earnings per share on the share prices of companies listed on the Nairobi Securities Exchange.

1.4 Value of the study

This study will be of importance to various stakeholders either directly or indirectly who participate and are affected by the share prices and patterns on the Nairobi Securities Exchange as listed below;

Investors: These are to benefit from this study as the knowledge in this study would unravel the use of the EPS per share as predictor of the stock prices. By utilizing the information on the impact of the announced EPS on share prices the investors are likely to make more informed and rational investment decisions.

Researchers: The study would add to available body of knowledge on the impact of factors that affect share prices. EPS per share has been identified a key tool to be used in evaluating company performance and therefore to understand its effect on the stock prices is important to researchers.

Financial Advisory Services: The study will also benefit financial advisory services firms such as stock brokers, investment firms etc who usually provide financial advisory services to investors on the NSE. By utilizing the findings in this study, the firms would advise their clients from a knowledge point of view.

Listed Companies Management: This study will benefit the NSE listed companies boards of management as understanding the impact of the EPS per share on the Stock price will help company management plan to maximize the shareholders wealth in terms of maximizing the shareholders returns in terms of EPS.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, we discuss the various theories seeking to understand forces behind share prices behavior. We discuss the efficient market hypothesis Fama (1970), the random walk theory by Fama (1965) and the Dividend Valuation Model which was advocated by Modigliani and Miller (1961).

Empirical studies that have been undertaken by other researchers relating to the behavior of shares in the NSE and other relevant studies on share behavior are to be discussed. We discuss the studies by Seetheraman and John (2011) on the impact of the EPS on shares prices of Berhard Bank in Malaysia, Mohammed (2010) on earnings announcements, Paul and Brown (1968) on post earnings drift and Mbaka (2010) on the effect of dividend announcements.

A discussion on the literature on EPS and the NSE share Index which is the context of this study is discussed and we conclude the section by highlighting on the summary of the various findings and possible implications on the NSE.

2.2 A Review of Theories on the behavior of Share Prices

2.2.1 The Random Walk Theory

The theory was advocated by Fama (1965) in the journal on stock market prices. In his finding he advocates that the random walks in Stock prices is based on the premises that the successive price changes are independent and the price changes conform to some form of probability distribution. He established in the theory that differences in stock prices seem to follow a stable Paretian distributions.

The random walk theory established the proposition that previous stock prices can therefore not be used to predict the expected future prices. Godwin (2010) while studying on the applicability of the random walk theory on the Nigeria Stock Exchange proved that theory applies though in a weak form of market efficiency in that information conveyed in past pattern of share prices is compounded in the current prices. In Statistical terms the price changes in period *t* are not related to the price changes in the successive periods. However Fama and Kenneth (1998) on their studies on dividend yields and expected stock returns established that the power of dividend yields to forecast stock returns increases with horizon. Thus on long periods of Horizon the dividend yield is a good predictor of stock market returns.

2.2.2 Efficient Market Hypothesis

The Efficient Market hypothesis is closely related to the Random Market Theory. The Efficient Market Hypothesis (EMH) was formulated by Fama (1970) and suggests that at any given time, stock prices fully reflect all available information on a particular stock and/or market. Thus, according to the EMH, no investor has an advantage in predicting a return on a stock price because no one has access to information not already available to everyone else.

There exists three forms of market efficiency, strong form, semi strong form and the weak form of market efficiency. Semi strong form of market efficiency occurs when the market reflects not just past prices but all other published information as found out by Brealey, Myers, Allen and Mohanty (2007). However , one can argue that not all information may be public and on this Clara (2006) found out that it is irrelevant as to whether the information is private or public, what matters is the arrival rate of informed or uninformed traders. Wachira (2010) in his studies on the success of the IPOS among listed companies on the Nairobi Securities Exchange classified investors

into "Informed Investors" and "Uninformed investors". Informed investors have **perfect** information whereas uninformed investors do not have the perfect **information.** Following such scenario the informed investors compete with uniformed **investors** for "good" issues, creating adverse selection in which the chances of **obtaininu** bad issues are higher for uniformed investors. This results into anomalies in **the market** weakening the effectiveness of EMH to predict the share prices on the NSE hence depicting a weak form of EMH.

Thus the stock prices are expected to reflect all available information that is released to the public for an efficient market. Ball and Brown (1968) found out that stock returns continue to drift in the direction of earnings surprises for several months after the earnings are announced and Bernard and Thomas (1989) found out that stocks of companies which reported good news outperformed the ones with bad news. With the release of financial results it is therefore expected that a company's stocks would adjust accordingly in line with the released financial information that is contained in the announced results. However for a better understanding of the effect of the announcements we need to understand the specific effect of the variables behind the price changes and EPS being a key variable in this matter.

Munyao (2010) brought a question on the rationality on investors where he studied two groups of portfolio on the NSE. One group was for the extreme performers whereas the other group comprised of the extra poor performers. Over the study period Munyao (2010) observed that the loser portfolio outperformed the winner by ^5.92%. He came to conclusions that the shareholder are irrational do depict rational behavior.

2.2.3 Theory on Dividend Policy, Growth and Valuation of Shares

The theory on dividend Policy, growth and valuation of shares was advanced by Miller and Modigliani (1961) in their study on the effect of dividend policy on the current price of shares. They established that dividend yield can be used to predict the stock returns on a long term horizon as opposed to short term prediction. However, one should note that dividends are paid out of the company's earning and therefore earning per share is equally expected to have an impact.

Gordon (1959) on the bird in the hand argument, tried to explain the preference of investors of current income to future expected income which put the case forward for the preference of dividends by the shareholders. He pointed out that investors pay for three things when acquiring a share firstly being the dividends and earnings, secondly the dividends and thirdly the earnings. However we need to know if investor pays for earnings wnat could be the effect of the earnings when announced on the share price.

In their paper on the applicability of the constant Dividend Model for companies listed at the Nairobi Securities Exchange, Aduda and Kimani (2010) found out that the constant dividend model was not employed by the companies listed at the Nairobi Securities Exchange as most firms adopted a stable and predictable policy where a specific amount of dividend per share was paid each year. In some years, there was a slight adjustment of the dividend paid after an increase in earnings, but only by a sustainable amount. However, the relationship between the stock market prices and the dividend paid from the constant dividend model is uneven from one year to another and where there was a relationship it was insignificant. Their study did not consider the effect of the changes in the earnings per share.

2.3 A Review of Empirical Studies

2 3.1 Impact of the Announced Earnings per Share

Various studies have been done to understand the behavior of stock prices both on the **local context** of the Nairobi Securities Exchange and others abroad however most **studies have** been centered on other aspects and not many have been focused **specifically on** the effect of earning per share. We discuss some of these studies, with **their findings** and conclusions. The previous empirical studies are important in order **to understand** the context of our study and identification of the research gaps in the **area.**

The study by Seetheraman and John (2011) was on the Impact of Earnings per Share on a Listed Bank Berhard in Malaysia, and they sought to investigate and evaluate the Impact of Earnings per Share on the Stock Prices in a span of 19 years of Public Bank Berhard, a listed Bank in Malaysia. By conducting a study making use of Statistical Study Package for Social Sciences (SPSS) to evaluate the existence of a significant level of impact on the banks EPS on its stock prices during the quarterly earnings announced since, year 2000, they found a strong positive correlation between Public Bank Berhad's EPS with its stock prices. Their results therefore showed that in general there is a significant impact of earnings announcement on public Bank Bernhard's stock prices.

However, the results also indicated significant inconsistency in the stock price performance after the announcement of the quarterly earnings announcement hence the conclusion that the EPS figure is good indicator for long-term investment analysis by fund managers and the investing community. The weakness with the study is that it

only focused on a single institution and this can therefore not be used as a benchmark **finding** for the performance on an entire Stock Exchange Market.

It therefore follows that Earnings per Share has a bearing on the pricing of a **company**'s stocks since the information on the EPS would be a key pointer to the **financial** health and position of the company. The earnings per share can be **considered** to be having information content that likely to affect the security prices.

2.3.2 Earnings Announcements

Mohammed(2010) in his studies on the effect of earnings announcements on the stock prices of companies listed at the NSE found significant movements in returns were observed periodically, at pre and post earnings announcements. He noted that most of the shares posted negative abnormal returns around the earnings announcements date which showed how stock prices had reacted to the earnings announcement event. Onyango (2004) carried out similar studies on 16 of 48 listed companies on the Nairobi Securities Exchange and using weekly cumulative averages of stock prices over a seventeen week period found out that the earnings announcement contained information to investors which is fully impounded in the prices prior to or almost instantly at the time of the announcement which shows a semi strong form of EMH at the NSE.

However the findings here did not consider the earnings in terms of the variable of earnings per share. Shareholders' interests in companies are held in terms of shares and for better understanding of the earnings effect on share prices we need to look at **it** from the perspective of the influence of Earnings per Share (EPS). The earnings may **be** good but if the equity shareholding structure of the company has changed, the **take** home for individual shareholders is reduced.

Ondigo(1995), in his studies on information content of annual reports found out that on average, the annual reports of sampled companies listed on the Nairobi Securities Exchange had no information content that could affect the stock prices during the **period** of the study. This was in contrast to the earlier findings by Mohammed (2010) **and** Onyango (2010) who found out that the share prices do react to past information contained in the financial reports. His findings depict the NSE as a weak form of EMH as per Famas theory on EMH (1970) whereas the findings of Mohammed (2010) and Onyango (2010) depicted the NSE as a semi strong form of efficiency. A weak form of EMH challenges the applicability of the EMH on the NSE for the shares to reflect available information.

Kamuruci (2003) studied the predictability of accounting earnings using changes in share prices of all companies listed at the NSE during the period 1996 to 2001.In his studies he hypothesized that current prices do not capture future earnings. Using average prices he found that, on average, 60.35% of companies had their share prices moving the same direction as the accounting earnings. However his findings did not establish the effect of the announced earnings per share on the stock prices as his study was focused on the future earnings and not the current earnings per share. It is important that we establish the nature and extent of the earnings per share as it's a key tool to understand the performance of companies in the eyes of investors.

Werner and Richard (1985) on their studies on the reactions of the Stock Market found out that portfolios of prior "losers" are found to outperform prior "winners". They established in their studies that 36 months after portfolio formation, the loosing stocks earned about 25% more than the winners, even though the later are more significantly risky. This pattern is attributed to the researches done in experimental

psychology that suggests that in violation of Bayes rule, most people "overreact" to **unexpected** and dramatic news events.

2.3.3 Post Earnings Announcement Drift

Ball and Brown (1968) studied post earnings announcement drift in which they sought to understand the drifting of stock prices after announcement of earnings. They found out that stock returns continue to drift in the direction of earnings surprises for several months after the earnings are announced. In a seminar paper on the behavior of stock prices, Fama (1998) coincides that the occurrence of persistent anomalies that pose a challenge to the market efficiency propositions one of this being the post-earnings drift of or earnings momentum which is evidenced by rallying of the stock prices following the announcement of the earnings results.

In the article on Market and Analyst Reactions to Earnings; an emergency comparison, Jing (2003) found out that the market is more efficient and reacts more rapidly to earnings than financial analysts. His studies pointed out that the market is more reactive at the pre-announcement quarters (inclusive of the study), the market reacts more than analysts with the analysts gradually catching up in the post announcement quarters. However Jing (2003) study concentrated on the earnings forecasts rather than the actual announced earnings.

In their study on liquidity relation to the Post-Earnings-Announcement Drift by Chordia, Goyal, Sadaka and Shavikumar (2009), found out that the Post-Earnings-Announcement Drift Occurs mainly in highly illiquid stocks. They also found out farther that a trading strategy that goes long-high earning surprise stocks provided a monthly weighted return of 0.04% in the most liquid stocks and 2.43% in the most

illiquid stocks. The sample here consisted of all NYSE (New York Stock Exchange) and Amex companies with data available on the monthly CRSP and quarterly Standard & Poor's Compustat files for the period January 1972 through December 2005.

2.3.4 Dividend Announcements

Mbaka (2010) in his study the applicability of the dividend signaling theory on companies forming the NSE-Share index established that dividend announcement by companies have effects on their share prices. He established that the dividend payment had positive effect on companies with increasing dividend and negative effect on companies with decreasing dividend payment. This falls in place with Gordon's (1959) argument on the preference for dividends by shareholder on the bird in the hand theory. In his paper on the bird in the hand argument, Gordon (1959) tried to explain the preference of investors of current income to future expected income. This puts the case forward for the shareholders preference to dividends payments, however the dividend to be paid by a company depends on the earnings the company has made over the financial period. A higher dividend can only be declared if a company has been able to get higher Earnings per Share since dividend is a fraction of the earnings per share. It would therefore go without saying that the earnings would be expected to have an impact on the shares prices as noted by Aduda and Kimani (2010) adjustments in dividend payment by firms is a result of improved company earnings.

In their study on the applicability of the constant Dividend Model for Companies Listed at the Nairobi Securities Exchange, Aduda and Kimani (2010) found out that the constant dividend model was not employed by the companies listed at the Nairobi Securities Exchange. By studying 20 companies which paid dividends consistently

from 2002 to 2008, they analyzed the data by re-computing the dividends if constant dividend model was to be applied. They established that most firms adopted a stable and predictable policy where a specific amount of dividend per share was paid each year though in some years, there was a slight adjustment of the dividend paid after an increase in earnings, but only by a sustainable amount. The study further found out that the relationship between the stock market prices and the dividend paid from the constant dividend model to be uneven from one year to another and where there was a relationship it was insignificant. However, dividends paid by companies are usually just a fraction of the earnings per share.

Mohammed(2010) in his studies on the signaling effect of dividend payment on the earnings of the firm did find out that dividend payment ratios positively correlated with future earnings of companies though the relationship is slow. By applying the prj-ametric tests of f and t types to establish relationship between dividend payment and future earnings of the company listed at the Nairobi Securities Exchange and by allowing a one year time lag between earnings and the dividend payout ratio he found 'N

out to exist a positive correlation.

2.3.5 Bonus Issue Announcements

The declaration of bonus issues by companies has been found to have a positive effect on the price of their stocks. Odumbe (2010) examined the information content in regard to 38 bonus issue announcements released by 26 companies over period 2000 and September 2010.By analyzing the Average Stock Returns Vanability(ASRV) and Analysis of Abnormal Retums(AAR) for 15 days prior to the announcement and 15 days following the announcement he found out that the stock prices reacted to bonus issue announcements hence concluded bonus announcements contained information useful for valuing the stocks and information on bonus issues can be used by investors

for making abnormal returns. Balachandran and Tanner (2011) found a statistically significant effect of bonus issues to stock prices though they noted the effect being more statistically stronger for manufacturing companies than financial companies.

2.4 The Link between Stock Price and Earnings per Share

Earnings **per Share also referred to as EPS is defined as follows as per** *investopedi***a library "The portion of a company's profit allocated to each outstanding share of** common **stock. Earnings per share serves as an indicator of a company's profitability". EPS is calculated as**

$$\frac{\text{Net Income - Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

The earnings numerators (profit or loss from continuing operations and net profit or loss) used for the calculation should be after deducting all expenses including taxes, minority interests, and preference dividends (IAS 33).The denominator (number of shares) is calculated by adjusting the shares in issue at the beginning of the period by the number of shades bought back or issued during the period, multiplied by a time-weighting factor. IAS 33 includes guidance on appropriate recognition dates for shares issued in various circumstances. (IAS 33.20-21)

Investors often use the terms growth stocks and income stocks. They buy growth stocks primarily for the expectations of capital gains, and they are interested in the future growth of earnings rather than next year's dividends, Brealey et al (2007).

Assuming a firm paying all its earning as dividends, the expected return would equal to the yearly dividend divided by the share price, Brealy et al (2007).

Expected Return=Dividend Yield=Earnings/price ratio

$$\text{Expected Retum(R)} = \frac{EPS1}{Po}$$

The price of this share shall equal to

Po=_DIY!_=:.IPS!

Po

Where;

EPSl=Earnings Per Share in Year 1

DIVl=Dividend in Year 1

Po =The Price of the Stock in Year 0

However for firms reinvesting the part of the earnings the stock price shall be thought of as capitalized value of average earnings under a no growth policy, plus PVGO, the present value of growth opportunities, Brealey et al (2007).

Po= EPS1 + PVGO (Net Present Value of Growth Opportunities)

Po

2.5 NSE-20 Share Index

The NSE-20 share Index (NSE-20) is the long standing benchmark index used for equities traded on the Nairobi Securities Exchange (NSE) and represents the geometric mean of share prices of the NSE's 20 top stocks. It has more recently been joined by the broader based NSE All Share Index (NASI), aimed at capturing the market capitalization of all NSE's listed equities traded in a day, (www.wikipedia).

Various Stock Exchanges have adopted the use of indices where the Wall Street in the USA uses NYSE, Nikkei Average has been used in the Japan Stock Exchange. Index numbers are applied in the measurement of the movements in the stock prices as,they effectively summarize hundreds of price movements, Odhiambo, (www.ficu.org/iaup/sap).

NSE Periodically reviews the NSE-20 Share Index based on the performance of the constituent companies where some are dropped and new ones enlisted to ensure

that its reflects an accurate picture of the market performance. The last review was done in 2009 where the Cooperative bank of Kenya replaced the Centum Investments, (www.nse).

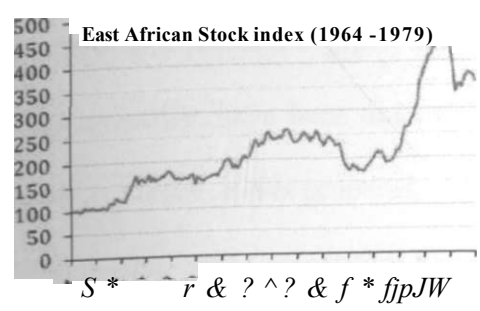
Summary of recent Changes in the Composition of the NSE-20 Index Constituents

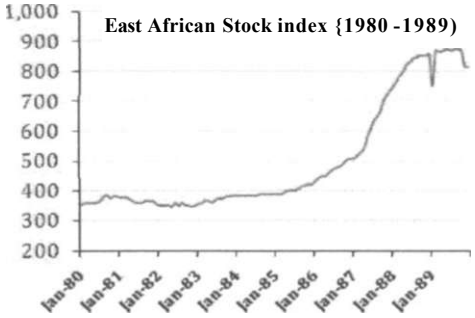
YEAR	NEW ENTRANTS	DROPPED
2006		Unilever Tea
		Williamson Tea
		Kakuzi
		Uchumi
		NIC
		BOC
2007	Rea Vipingo	TPS Serena
	CMC Holdings	Diamond Trust
	Express Kenya	Sameer Africa
	ICDI	Total Kenya
	Mumias Sugar	
	Kerigen	
2008	Safari com	Centum Investment
	Equity	
	East African Cables	
	Athi River Mining	
2009	Cooperative bank of Kenya	

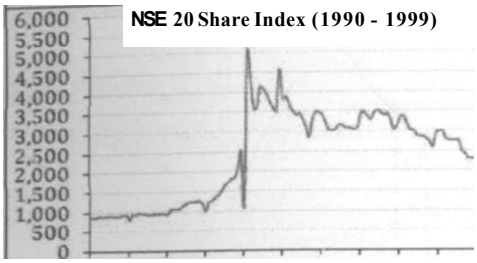
Source: is airobi Securities Exchange

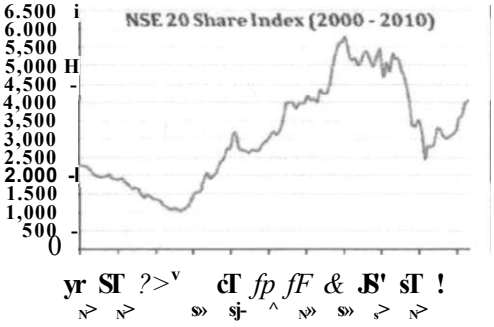
The below tabulation indicates how the NSE-20 Share Index has faired on in establishing of the NSE market trends over the years as studied by an investment firm.

Equity Market Research









Faida Investment Bank Research:5: Historical Information

2.6 Conclusions on Literature Review

The theories discussed as advocated by Fama (1965), Fama(1970) on the random walks of share prices and EMH respectively, and Modigliani and Miller (1961) on Dividend Valuation Models have tried to explain the forces behind the movement of ihe stock market prices in order to establish if the prices can be predicted and have a model to value the prices however much remains to be done as they are not conclusive.

The various empirical studies as discussed Mohammed (2010) on earnings announcements, Mbaka (2010) on dividend signaling, Seetharaman and John(2010) on the impact of EPS and 0dumbe(2010) on Bonus announcement establish the

on the impact of EPS and 0dumbe(2010) on Bonus announcement establish the various findings both locally and abroad as discussed on the trends behind the movements of the stock prices but there still remains much to study.

Thus there still remains a gap to understand the other variables on the stock market. Not many studies have been done in the area of the Impact of the EPS which is the focus of our study in this proposal.

2.7 Theoretical and Conceptual Frameworks

DIVIDEND DECLARATIONS
BONUS ANNOUNCEMENTS
EARNINGS ANNOUNCEMENTS
RANDOM FACTORS
SHARE SPLITS
CHANGES IN COMPANY MANAGEMENTS
DEMAND AND SUPPLY FORCES

Source: The Model is self developed

The announced EPS is expected to impact on the listed companies share prices as illustrated in the above model. Earnings per Share indicate earnings per every equity outstanding share. High EPS indicates increased value. Positive EPS is good news and therefore we expect it to correlate with the market positively and negative EPS being considered to be bad news we would expect the vice versa.

Other intervening variables such as the dividend declarations, bonus announcements, earnings announcements, random factors, share splits, changes in company managements and the demand and supply forces also at play in the stock market shall be assumed to be constant.

Independent Variable

Company Earnings per share is the independent variable. When companies' makes earning announcements the EPS is expected to have gone up or down. The Share prices are expected to respond to the announcements, such response was observed by Patel and Wolfson (1984) in their study of the intraday Speed of Adjustment of Stock Prices to Earnings and Dividend Announcements

Dependent Variable

The changes in the stock prices is the dependent variable. The change is anticipated from the increase/decrease in the company earnings from the previous earnings. Following the announced earnings subsequent changes in the stock prices are expected to correlate with the changes in the EPS.

CHAPTER THREE: RESEARCH METHODOLODY

3.1. Introduction

This chapter outlines the research design and methodology to be followed in carrying out the study. The various steps and approach to investigate the research problem is discussed with the justification for the selection.

3.2 Research Design

The research design is a descriptive survey which is longitudinal in nature across periods of time. The study is to measure the effect of announced earnings per share on the NSE-20 Share prices upon the event of announcing the results of the earnings per share. The study is to explain that using financial market data, the event will measure the effect of the announced EPS on the value of share prices. Mackinlay (1996) identified event study as useful in measuring effect of economic event on the firm value.

3.3 Study Population

The study population in this study was for the companies listed on the Nairobi Stock Exchange as at end of December 2010 (Appendix I).The companies in the list were the ones which were active on the stock exchange and therefore there shares were trading. The selection was limited to listed companies whose data is published and is therefore available. The listed companies are required to make publications of their financial statements for every financial year.

3.4 Sample

Purposive sampling approach was used to arrive at the study sample. The sample (Appendix 3) consisted of the 10 companies that have been consistently appearing on the NSE-20 Share Index in the study period of between 2006 to 2010.Since 2006 various changes have been happening and the NSE-20 Share Index has been having new entrants as others exit. Firms which were dropped or were new entrants in the period were not included as inconsistency would result into bias.

3.5 Data Collection

The data collected for this study was secondary data. Secondary data was chosen because the information required in this study was already available in published form. The companies listed on the NSE are required to be publishing accounts and indicating the EPS which is done on yearly and quarterly basis. The data regarding the announced earnings results for the period of study were from Jan 2006 to December 2010 and early part of January 2011 which was collected from the published accounts of the companies which was obtained from the Nairobi Securities Exchange.

The event widow was 41 day period consisting of the day of making the earnings announcement, 20 days prior to the announcement, and 20 days after the announcements was considered. The period was adequate to examine the effect of EPS as 20 days surrounding the announcement date appeared reasonable as price changes in a longer period could be result of other structural changes occurring in the firms.

Data on the NSE-20 share prices before and after announcement of the earning results was available from the NSE the published daily NSE-20 price lists. The information on the average share prices was available on daily basis. Data regarding the

announced per share and the pre-announced earnings per share was tabulated and the percentage change analyzed by use of percentages. The data collected was organized by descriptive statitistical approaches using tables, graphs and charts.

3.6 Data Analysis

By use of inferential statitistical methods, the data was interpreted in order to arrive and make inferences regarding the patterns, Chava and Franklin (1996).Regression model was employed in the analysis of the data.

A multiple regression analysis was conducted so as to determine the relationship between share price and the announcement of EPS. By use of SPSS the regression equation applied was as follows;

Y = Po + (VEPS + 8

Whereby;

Y -Share Price

Po- Constant

Pi. the effects of announcement of EPS

EPS-Earning Per Share

E-Error Terms

Coefficient of determination was used to explain the extent to which changes in the dependent variable (Shares Prices) shall be explained by the independent variable (EPS). By computing the values of R squared we understand the extent of the dependent variable that is explained by the independent variable.

The analysis of the data was for the effect before and after the announcement of the earnings per share results for all the five year period from 2006 to 2010.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a summary of the findings on the effect of earnings per share on the share prices of companies listed on the Nairobi Securities Exchange for the period between year 2006 and year 2010.The sample were the companies which have been consistent on the NSE-20 share index in the period of study 2006 and 2010.This chapter presents the discussions of the findings.

4.2 Average Share Prices for the Companies Average Earnings per Share

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Table 4.1 Average Share Prices Before and After Announcement of the EPS

PERIOD	2010		2009		2008	
COMPANY	**BEFORE**	**AFTER**	**BEFORE**	**AFTER**	**BEFORE**	**AFTER**
Sasini	13	13.11	7.73	7.36	6.05	6.9
Kenya Airways	55.13	48.52	59.97	48.82	54.225	48.25
Nation Media Group	124.3	139.2	119.35	128.95	321	321.15
Barclays Bank of Kenya	48.9	51.23	46.38	41.53	69.77	70.3
KCB	21.37	21.2	18.19	16.34	26	27
Standard Chartered Bank	173.45	187.85	173	188	211.55	206.05
Bamburi Cement CO	164	192.45	139	113	186.5	190.45
BAT Kenya	181.9	190.7	139.6	142.7	144.2	164.9
EABL	182.75	182.55	148.3	145.75	145.6	158.7
Average	**119.41**	**125.97**	**97.60**	**97.55**	**132.23**	**136.23**

Cont. Table 4.1

PERIOD	2007		2006	
COMPANY	**BEFORE**	**AFTER**	**BEFORE**	**AFTER**
Sasini	17.6	16.1	126.95	146.9
Kenya Airways	82.45	76.55	123	114.5
Nation Media Group	246.2	251.05	198.15	194.45
Barclays Bank of Kenya	78.175	66.175	269.5	251.35
KCB	239.2	208.35	116.25	114.35
Standard Chartered Bank	210.2	182.1	140.5	140
Bamburi Cement CO	211.9	215.55	140.7	139.6
BAT Kenya	234.35	193.2	203.65	199.05
EABL	154.15	175.05	182.75	182.55
KPLC	259.8	217.95	229.35	232.95
Average	**173.40**	**160.20**	**173.08**	**171.57**

The average share prices for the companies before and after announcement of the earnings per share results were as tabulated in the above analysis. The average share prices were both on up and downward trends before and after the announcement of the results.

4.3 Average Earnings per Share

The average earning per share for the ten companies were KShs. 10.30836, KShs. 9.912, KShs.l 1.72876, KShs. 11.41952 and KShs. 13.795 for the period between 2006, 2007, 2008, 2009 and 2010 respectively

Table 4.2: Average Earning Per Share Levels

Company	2010	2009	2008	2007	2006
Sasini	4.36	2.34	3.88	(0.21)	6.23
Kenya Airways	4.41	(8.85)	8.38	8.88	10.46
Nation Media Group	9.79	11.34	26.79	15.10	10.98
Barclays Bank of Kenya	7.81	4.49	4.07	3.62	3.31
KCB	2.43	1.84	1.89	1.49	12.18
Standard Chartered Bank	18.73	17.40	11.95	12.76	9.69
Bamburi Cement CO	14.6	19.20	9.40	10.50	7.71
BAT Kenya	17.67	14.78	17.00	13.86	12.01
EABL	11.18	10.89	11.61	11.43	9.73
KPLC	46.97	40.76	22.30	21.72	20.78
AVERAGE	**13.795**	**11.41952**	**11.72876**	**9.912**	**10.30836**

Average Annual Growth Rates of Earnings per Share for the Period of 2006 to 2010

Annual Growth Rates for the Period of 2006 to 2010 were 34.99%, (8.20)%, 183.16%, 14.55% and 29.35% respectively.

Table 4.3: Annual Growth Rates

Company ANNUAL GROWTH RATES % OF EPS	2010	2009	2008	2007	2006
Sasini	86.54	(39.78)	1,710.14	96.56	38.76
Kenya Airways	149.86	(205.53)	-5.59	-15.14	59.90
Nation Media Group	(13.68)	(57.67)	77.47	37.44	9.35
Barclays Bank of Kenya	74.11	10.24	12.51	9.32	37.42
KCB	31.96	(2.55)	26.80	-87.77	83.40
Standard Chartered Bank	7.63	45.59	-6.31	31.72	7.43
Bamburi Cement CO	(23.97)	104.28	-10.45	36.12	29.88
BAT Kenya	19.52	(13.05)	22.71	15.33	(13.07)
EABL	2.69	(6.26)	1.66	17.45	10.97
KPLC	15.24	82.74	2.70	4.52	29.44
Average	**34.99**	**(8.20)**	**183.16**	**14.55**	**29.35**

4.4 Trend Analysis for the Relationship between EPS and Share Prices

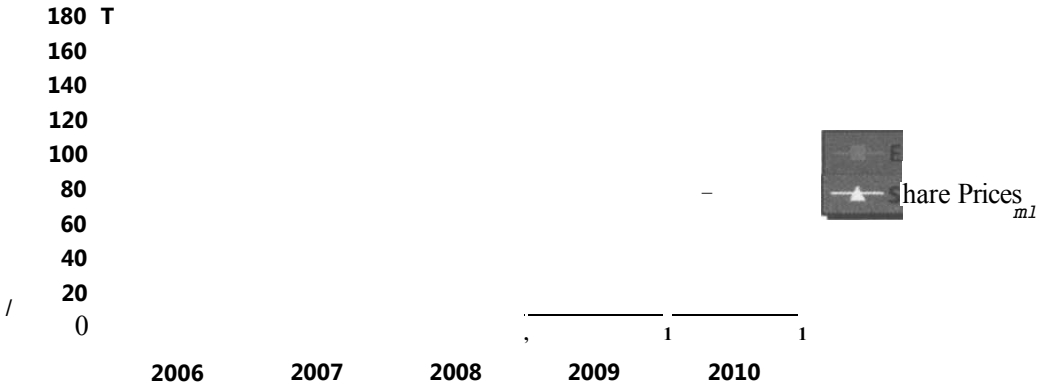
4.4.1 Relationship between Share Prices and EPS before Announcement

A trend analysis for the period of five years (between 2006 and 2010) in the ten companies shows that the share prices increased gradually between 2006 and 2008 and took a dip in the year 2009 then rose drastically in year 2010, while the EPS was gradually increasing from 2006 to 2007 with a slight drop in 2009 and then remained on upward trend in 2010. The share price hence related to the EPS in gradual manner. However there seems to have been other factors at play as the share prices were more drastic in the changes.

Table 4.4: Tabulation of Average EPS and Share Prices before Announcement

•——.^^PERIOD ITEM	2010	2009	2008	2007	2006
Share prices	119.45	97.6	132.9	173.4	173.08
EPS	11.4	11.7	9.9	10.3	6.9

Chart representation of Trend lines of EPS and Share Prices before announcement of the EPS results



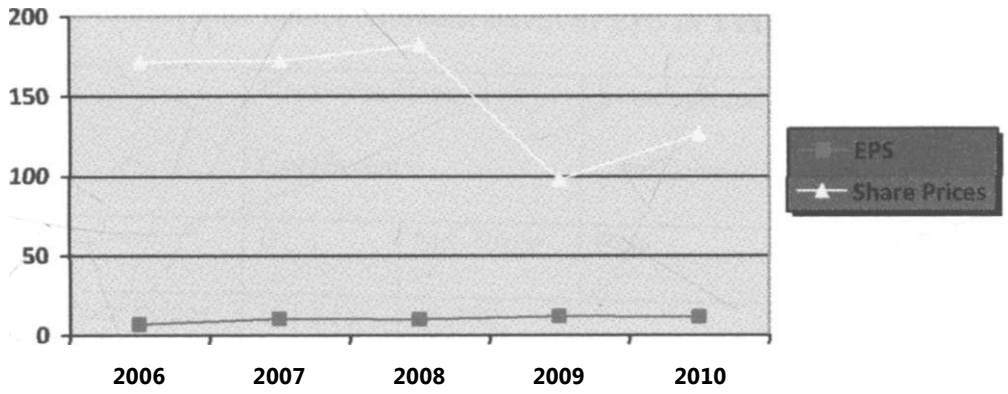
4.4.2 Relationship between Share Prices and EPS after Announcement

Further a trend analysis for the period of five years (between 2006 and 2010) in the ten companies shows that the share prices increased gradually between 2006 and 2008 and took a dip in the year 2009 then rose drastically in year 2010, while the EPS was gradually increasing from 2006 to 2007 with a slight drop in 2009 and then remained on upward trend in 2010. The share price hence related to the EPS in a gradual manner. However there seems to have been other factors at play as the share prices were more drastic in the changes.

Table 4.5: Tabulation of Average EPS and Share Prices After Announcement

——__PERIOD ITEM	2010	2009	2008	2007	2006
Share prices	125.90	97.56	136.23	160.21	171.57
EPS	13.8	11.4	11.7	9.9	10.3

Chart representation of Trend lines of EPS and Share Prices After announcement of the EPS results



4.5 Regression Analysis

4.5.1 Regression for Year 2006

Regression Analysis before Announcement of EPS in Year 2006

Table 4.6: Model Summary before Announcement of EPS in Year 2006

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.110(a)	.12	-.111	55.91509

Predictors: (Constant), Earnings Per Share by companies

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (share price) that is explained by the independent variable (EPS). From the table above, the value of R^2 is 0.12. This implies that, there was a variation of share price of the ten companies quoted in the NSE before the announcement of EPS at a confidence level of 95%. This means that 12.0% of the share prices of the ten listed companies were attributable to the announcement of EPS.

Table 4.7: Coefficients before Announcement of EPS in Year 2006

Mode 1		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	161.615	45.439		3.557	.007
	Earnings Per Share	1.272	4.061	.110	.313	.762

a Dependent Variable: Average Share Prices per company

A multiple regression analysis was conducted so as to determine the relationship between share price and the announcement of EPS. As per the SPSS generated, the equation

Y = **PO** + Pi EPS + **E** become:

Share Price = 161.615+ 1.272EPS

Where Y is the dependent variable (Share Price), pi is the effects of announcement of EPS.

According to the regression equation established, taking all factors (EPS) constant at zero, the share prices of the ten companies before announcement of the EPS will be

161.615. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in EPS will lead to a 1.272 increase in the share prices of the ten companies.

Regression Analysis after Announcement of EPS in Year 2006

The analysis of the change in share prices with the announcement of EPS was also carried out.

Table 4.8: Model Summary after Announcement of EPS in Year 2006

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.313(a)	.48	-.014	60.38700

a Predictors: (Constant), Earnings Per Share by companies

The model summary above shows that the independent variables that were studied, explain only 48% of the change in share price after announcement of EPS in the institutions as represented by the R". This therefore means that other factors not studied in this research contribute 52% of the change in share price after announcement of EPS.

Table 4.9: Coefficients after Announcement of EPS in Year 2006

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	120.108	49.073		2.448	.040
	Earnings Per Share by Companies	4.094	4.385	.313	.934	.378

a Dependent Variable: Average Share Prices per company

Share Price = 120.108+4.094EPS

From the table above keeping the EPS constant at zero, the share prices of the ten companies after announcement of the EPS will be 120.108, while taking all other independent variables at zero, a unit increase in EPS will lead to a 4.094 increase in the share prices of the ten companies.

4.5.2 Regression for Year 2007

Regression Analysis before Announcement of EPS in Year 2007

Table 4.10: Model Summary before Announcement of EPS in Year 2007

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.668(a)	.446	.377	67.36935

a Predictors: (Constant), Earnings Per Share by companies

Adjusted R~ is called the coefficient of determination and tells us how the share price of the ten companies in Kenya varied with the EPS. From table above, the value of adjusted R squared is 0.446 before announcement of EPS. This implies that, there was a variation of 44.6% of share price of the ten companies in Kenya with changes of the EPS before announcement at a confidence level of 95%. This means that 55.4% of the share price of the ten companies in Kenya is attributable to other factors.

Table 4.11: Coefficients before Announcement of EPS in Year 2007

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	89.221	39.381		2.266	.053

	Earnings Per Share by Companies	8.485	3.340	.668	2.540	.035

A Dependent Variable: Average Share Prices per company

From the above coefficient results of year 2007 the established regression equation was;

Share Price = 89.221 + 8.485 EPS + a

From the above equation the study found that holding EPS constant at zero, the share price would be equal to 89.221. A unit increase in EPS would lead to increase in share price by a factor of 8.485 before announcement of EPS.

Regression Analysis after Announcement of EPS in Year 2007

Table 4.12: Model Summary after Announcement of EPS in Year 2007

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.660(a)	.436	.365	62.49080

a Predictors: (Constant), Earnings Per Share by companies

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (share price) that is explained by independent variable (EPS). From the table above, the value of R^2 is 0.436 after announcement of EPS. This implies that, there was a variation of share price of the ten companies in Kenya with changes in EPS after announcement of EPS at a confidence level of 95%. This means that 43.6% of the share price of the ten companies in Kenya is attributable to EPS.

Table 4.13: Coefficients after Announcement of EPS in Year 2007

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Share Prices	83.871	36.529		2.296	.051
	Earnings Per Share by companies	7.699	3.099	.660	2.485	.038

a Dependent Variable: Average Share Prices per company

From the above coefficient results of year 2007 the established regression equation was;

Share Price = 83.871 + 7.699 EPS + a

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From the above equation the study found that holding EPS constant at zero, the share price would be equal to 83.871 after announcement of EPS. A unit increase in EPS would lead to increase in share price by a factor of 7.699 after announcement of EPS.

4.5.3 Regression for Year 2008

Regression Analysis before Announcement of EPS in Year 2008

Table 4.11: Model Summary before Announcement of EPS in Year 2008

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.488(a)	.238	.143	141.36638

a Predictors: (Constant), Earnings Per Share by companies

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (share price) that is explained by all

the independent variable (EPS). From the table above, the value of R^2 is 0.238. This implies that, there was a variation of share price of the companies in Kenya with changes in EPS at a confidence level of 95%. This means that 23.8% of the share price of the companies in Kenya is attributable to EPS.

Table 4.12: Coefficients before Announcement of EPS in Year 2008

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	74.851	81.104		.923	.383
	Earnings Per Share	9.121	5.771	.488	1.581	.153

a Dependent Variable: Average Share Prices per company

From the above coefficient results of year 2008 the established regression equation was;

Share Price = 74.851 + 9.121 EPS + a

From the above equation the study found that holding aggressive EPS constant at zero, the share price would be equal to 74.851. A unit increase in EPS would lead to increase in share price by a factor of 9.121. **Regression Analysis after Announcement of EPS in Year 2008**

Table 4.13: Model Summary after Announcement of EPS in Year 2008

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847(a)	.717	.682	54.82430

a Predictors: (Constant), Earnings Per Share by companies

Adjusted $\mathbf{R}^2$ is called the coefficient of determination and tells us how the share price of the ten companies in Kenya varied with the EPS. From table above, the value of adjusted R~ is 0.682 after announcement of EPS. This implies that, there was a variation of 68.2% of share price of the ten companies in Kenya with changes of the EPS after announcement of EPS at a confidence level of 95%. This means that 68.2% of the share price of the ten companies in Kenya is attributable to the EPS after announcement of EPS.

Table 4.14: Coefficients after Announcement of EPS in Year 2008

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
-		B	Std. Error	Beta		
1	Share Prices	17.936	31.454		.570	.584
	Earnings Per Share by companies	10.088	2.238	.847	4.508	.002

a Dependent Variable: Average Share Prices per company

Share Price = 17.936 + 10.088 EPS + a

From the above equation the study found that holding EPS constant at zero, the share price would be equal to 17.936 after announcement of EPS. A unit increase in EPS would lead to increase in share price by a factor of 10.088 after announcement of EPS.

4.5.4 Regression for Year 2009

Regression Analysis before Announcement of EPS in Year 2009

Table 4.15: Model Summary before Announcement of EPS in Year 2009

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617(a)	.380	.303	49.28747

a Predictors: (Constant), Earnings Per Share by companies

From the table above, the value of R^2 is 0.380. This implies that, there was a variation of share price of the ten companies quoted in the NSE before the announcement of EPS at a confidence level of 95%. This means that 38% of the share prices of the ten listed companies was attributable to the announcement of EPS.

Table 4.16: Coefficients before Announcement of EPS in Year 2009

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	66.458	20.992		3.166	.013
	Earnings Per Share by companies	2.728	1.231	.617	2.215	.058

a Dependent Variable: Average Share Prices per company

The researcher conducted a multiple regression analysis so as to determine the relationship between share price and the announcement of EPS. As per the SPSS generated, the equation

Y = $\mathbf{p_0}$ **+ PiEPS + 8)** become:

Share Price = 66.458+ 2.728 EPS

Where Y is the dependent variable (Share Price), pi is the effects of announcement of

EPS.

According to the regression equation established, taking all factors (EPS) constant at zero, the share prices of the ten companies before announcement of the EPS will be 66.458. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in EPS will lead to a 2.728 increase in the share prices of the ten companies.

Regression Analysis after Announcement of EPS in Year 2009

Table 4.20: Model Summary after Announcement of EPS in Year 2009

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.670(a)	.449	.380	49.87856

a Predictors: (Constant), Earnings Per Share by companies

From the table above, the value of R^2 is 0. 449. Implying that, there was a variation of share price of the ten companies quoted in the NSE before the announcement of EPS at a confidence level of 95%. This means that 44.9% of the share prices of the ten listed companies were attributable to the announcement of EPS.

Table 4.21: Coefficients after Announcement of EPS in Year 2009

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	61.255	21.244		2.883	.020
	Earnings Per Share	3.179	1.246	.670	2.551	.034

a Dependent Variable: Average Share Prices per company

Share Price = 61.255+ 3.179EPS

Consequently, from the regression equation above, when EPS is maintained constant

at zero, the share prices of the ten companies before announcement of the EPS will be 61.255. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in EPS will lead to a 3.179 increase in the share prices of the ten companies.

4.5.5 Regression for Year 2010

Regression Analysis before Announcement of EPS in Year 2010

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (share price) that is explained by the independent variable (EPS).

Table 4.22: Model Summary before Announcement of EPS in Year 2010

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.090(a)	.28	.116	814.46282

a Predictors: (Constant), Earnings Per Share by companies

From the table above, the value of R^2 is 0.28. This implies that, there was a variation of share price of the ten companies quoted in the NSE before the announcement of EPS at a confidence level of 95%. This means that 28.0% of the share prices of the ten listed companies were attributable to the announcement of EPS.

Table 4.23: Coefficients before Announcement of EPS in Year 2010

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	140.673	23.276		6.044	0.009
	Earnings Per Share	0.345	0.526	0.354	.656	0.019

a Dependent Variable: Average Share Prices

Share Price =140.673+0.345EPS

According to the regression equation established, taking all factors (EPS) constant at zero, the share prices of the ten companies before announcement of the EPS was 140.673. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in EPS will lead to a 0.345 increase in the share prices of the ten companies.

Regression Analysis after Announcement of EPS in Year 2010

Table 4.24: Model Summary after Announcement of EPS in Year 2010

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.761(a)	.579	.527	57.34535

a Predictors: (Constant), Earnings Per Share by companies

It was also established from the study that, after the announcement of EPS by the ten companies 57.9% of the share prices were contributed by EPS as represented by R^2.

Table 4.25: Coefficients after Announcement of EPS in Year 2010

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Share Prices	58.287	27.286		2.136	.065
	Earnings Per Share	4.907	1.478	.761	3.320	.011

a Dependent Variable: Average Share Prices per company

Share price= 58.287+ 4.907EPS

According to the regression equation, taking all factors (EPS) constant at zero, the share prices of the ten companies after announcement of the EPS was 58.287. The data findings analyzed also shows that taking all other independent variables at zero, a

unit increase in EPS will lead to a 4.907 decrease in the share prices of the ten companies.

CHAPTER FIVE: SUMMARY OF FINDING, CONCLUSION AND RECOMENDATIONS

5.0 Introduction

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. Findings have been summarized alongside the objective of the study, conclusions have been drawn from the study and the recommendations for further studies and actions made.

5.1 Summary of findings

The analysis approach was firstly done by computing the mean averages of the shares prices and the Earning per share before and after the announcement of the earnings per share results. Through regression analysis and determination of coefficients of determination the levels of R square which explains the extent to which changes in the dependent variable(Share Prices) is explained by the independent variable(EPS) in percentage terms for the shares in the ten listed companies. The analysis is computed for every year of the period of study as from the year 2006 to the year 2010.The summary of the findings is on the results of the study for each of the year in observation.

The regressions to determine the effects is done both before the and after the announcement of the Earnings Per Share results (EPS).

In the Year 2006 before the announcement of the EPS the value of R^2 of 0.12 which implies that 12% of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%.A multiple regression analysis by SPSS found that taking all other independent variables

at Zero, a unit increase in EPS leads to 1.272 increase in the share prices of the ten companies.

After the announcement of the EPS the value of R^2 of .48% showed that 48% of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 52% of the change.

It therefore follows that in 2006 the effect of the EPS was greater after the announcement of the earnings results than before the announcement.

In the Year 2007 before the announcement of the EPS the value of R^2 of 0.377 which implies that about 37% of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%.A multiple regression analysis by SPSS found that taking all other **independent Variables** at Zero, a unit **increase** in EPS **leads** to 8.485 increase in the share prices of the ten companies.

After the announcement of the EPS the value of R^2 of .436% showed that 43.6% of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 56.4% of the change.

It therefore follows that in 2007 the effect of the EPS was greater after the announcement of the earnings results than before the announcement

In the Year 2008 before the announcement of the EPS the value of R of 0.238 which implies that about 23.8 % of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%.76.2% could therefore be attributable to other intervening variables. A multiple regression analysis by SPSS found that taking all other independent variables at Zero, a unit increase in EPS leads to 9.121 increase in the share prices of the ten companies.

After the announcement of the EPS the value of R^2 of .717 showed that 71.7 % of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 28.3% of the change.

It therefore follows that in 2008 the effect of the EPS was greater after the announcement of the EPS results than before the announcement.

In the Year 2009 before the announcement of the EPS the value of R^2 of 0.38 which implies that about 38 % of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%. 62% could therefore be attributable to other intervening variables. A multiple regression analysis by SPSS found that taking all other independent variables at Zero, a unit increase in EPS leads to 2.728 increase in the share prices of the ten companies.

After the announcement of the EPS the value of R~ of .449 showed that 44.9 % of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 45.1% of the changes.

It therefore follows that in 2009 the effect of the EPS was greater after the announcement of the EPS results than before the announcement.

In the Year 2010 before the announcement of the EPS the value of R^2 of 0.28 which implies that about 28 % of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%. *72%* could therefore be attributable to other intervening variables. A multiple regression analysis by SPSS found that taking all other independent variables at Zero, a unit increase in EPS leads to 0.345 increase in the share prices of the ten companies.

After the announcement of the EPS the value of R^2 of .579 showed that 57.9 % of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 42.1% of the changes.

It therefore follows that in 2010 the effect of the EPS was greater after the announcement of the EPS results than before the announcement.

In the Year 2010 before the announcement of the EPS the value of R^2 of 0.28 which implies that about 28 % of the variation of the share prices of the ten companies studied was attributable to the announcement of the EPS at the confidence level of 95%. 72% could therefore be attributable to other intervening variables. A multiple regression analysis by SPSS found that taking all other independent variables at Zero, a unit increase in EPS leads to 0.345 increase in the share prices of the ten companies. After the announcement of the EPS the value of R^2 of .449 showed that 44.9 % of the changes in the share prices was explained by the announcement of the EPS. The other factors not studied in the model catered for the remaining 55.1% of the changes.

It therefore follows that in 2010 the effect of the EPS was greater after the announcement of the EPS results than before the announcement.

5.2 Conclusion

The main objective of this research was to find out the effects of earnings per share on the share prices of the companies quoted at the Nairobi Securities Exchange. In order to achieve this objective the shares prices and the earning per Share (EPS) of the listed companies were used 20 days before and after their earnings announcement dates excluding the material announcement day. The average data for the EPS and the share prices was computed for the five years of study 2006 to 2010. A multiple regression analysis was conducted so as to determine the relationship between share price and the announcement of EPS over a period of 5 years as from 2006 to 2010.

The results show that there is an effect on the shares prices by the announced EPS and this effect happens both before the announcement and after the announcement of the Earnings Per Share results. The results indicate that the effect of the EPS on the share

prices is more after the announcement of the results than before the announcement for all the five years studied. These findings support similar findings by Seetheraman and John (2011) that earnings per share affect the price of share as per his study on Berhard Bank in Malaysia. Kamuruci (2003) found out that prices of shares move in same direction as the earnings.

5.3 Recommendation

The results indicate that there is an effect of the EPS on the share prices before and after the announcement of the results. The effect happening before the announcements can be attributed to the semi strong form of market efficiency at the NSE as also found out by Mohammed (2010) and Onyango (2010) whereby the share prices tend to adjust partially to information trickling into the market. Cases of insider trading can also be the cause of such effects whereby investors with insider information with speculative buying tendencies tend to cause shifts in the prices of the shares. The effect that happens after the announcement which results have indicated is greater depicts the semi strong form of market efficiency at play at the NSE as the prices now adjust accordingly to fully reflect all the information that has been released to the market.

Recommendations is made for a further research on the entire population of the companies listed on the NSE as the focus in this study was basically on the NSE-20 share index for companies that have been consistently on the index for the period between 2006 to 2010.

The study was also focused based on the companies listed on the NSE but not any particular categorization as per the lines of business, perhaps further studies on the companies happening in the different lines of business should be considered such

lines as agriculture, finance and investment, manufacturing, transport and telecommunications.

5.4 Limitations of the study

A number of limitations can be identified in the study; firstly the research involved data collection from published sources of data some of which could only be accessed at cost from the subscribed sites of the NSE hence finance was a constraining factor.

Secondly the study was focused on the effect of the announced EPS on the NSE-20 share index constituent companies that have been consistent on the index in the five year period of the study as from 2006 to 2011 however recommendation is made for further research for the entire population of the 57 NSE listed companies.

The study was also limited to a period of 5 years. Further studies can be considered for longer periods of time perhaps 10 years. Studies focused on longer periods of time would be quite beneficial to the long term investors as opposed to short term observations.

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APPENDICES

Appendix 1: Listed Companies On The Nairobi Stock Exchange

No	**AGRICULTURE**
1	Rea Vipingo Ltd.
2	Sasini Tea & Coffee Ltd.
3	Kakuzi Ltd.
4	Eaagads Ltd Ord 1.25
5	Kapchorua Tea Co. Ltd Ord Ord 5.00
6	Limuru Tea Co. Ltd Ord 20.00
7	Williamson Tea Kenya Ltd Ord 5.00
	COMMERCIAL AND SERVICES
8	Express Ltd Ord 5.00
9	Kenya Airways Ltd Ord 5.00
10	Nation Media Group Ord. 2.50
11	Standard Group Ltd Ord 5.00
12	TPS Eastern Africa (Serena) Ltd Ord 1.00
13	Scangroup Ltd Ord 1.00
14	Hutchings Biemer Ltd Ord 5.00
	CONSTRUCTION AND ALLIED
15	Athi River Mining Ordinary 5.00
16	Bamburi Cement Ltd ord 5.00
17	Crown Berger Kenya Ltd ord 5.00
18	E .A Cables Ltd Ord 0.50
19	E. A Portland Cement Co. Ltd Ord 5.00
	ENERGY AND PETROLEUM
20	Kengen Co Ltd Ord 2.50

21	Kenol Kobil Ltd Ord 0.05
22	Kenya Power and Lightning Co Ltd Ord 2.50
23	Total Kenya Ltd Ord 5.00
	TELECOMMUNICATIONS AND TECHNOLOGY
24	Access Kenya Group Ltd Ord. 1.00
25	Safaricom Ltd Ord 0.05
	AUTOMOBILES AND ACCESSORIES
26	Car and General (K) Ltd Ord 5.00
27	CMC Holdings Ltd Ord 0.50
28	Sameer Africa Ltd Ord 5.00
29	Marshalls (E.A.) Ltd Ord 5.00
	BANKING
30	Barclays Bank Ltd Ord 2.00
31	CFC Stanbic Holdings Ltd ord.5.00
32	Diamond Trust Bank Kenya Ltd Ord 4.00
33	Housing Finance Co Ltd Ord 5.00
34	Kenya Commercial Bank Ltd Ord 1.00
35	National Bank of Kenya Ltd Ord 5.00
36	NIC Bank Ltd Ord 5.00
37	Standard Chartered Bank Ltd Ord 5.00
38	Equity Bank Ltd Ord 0.50
39	The Co-operative Bank of Kenya Ltd Ord 1.00
	INSURANCE
40	Jubilee Holdings Ltd Ord 5.00
41	Pan Africa Insurance Holdings Ltd Ord 5.00
42	Kenya Re-Insurance Corporation Ltd Ord 2.50
43	CFC Insurance Holdings
44	British-American Investments Company (Kenya) Ltd Ord 0.10
	INVESTMENT

45	City Trust Ltd Ord 5.00
46	Olympia Capital Holdings ltd Ord 5.00
47	Centum Investment Co Ltd Ord 0.50
48	Trans-Century Ltd
	MANUFACTURING AND ALLIED
49	B.O.C Kenya Ltd Ord 5.00
50	British American Tobacco Kenya Ltd Ord 10.00
51	Carbacid Investments Ltd Ord 5.00
52	East African Breweries Ltd Ord 2.00
53	Mumias Sugar Co. Ltd Ord 2.00
54	Unga Group Ltd Ord 5.00
55	Eveready East Africa Ltd Ord. 1.00
56	Kenya Orchards Ltd Ord 5.00
57	A.Baumann CO Ltd Ord 5.00

Appendix 2: NSE-20 Share Index Constituents

B	Firm
1	Mumias
2	Express
3	Rea Vipingo
4	Sasini
5	CMC
6	Kenya Airways
7	Safaricom
8	Nation
9	Barclays
10	Equity
11	KCB
12	Stanchart
13	Bamburi
14	BAT (K)
15	KENGEN
16	Cooperative Bank of Kenya
17	E.A.B.L
18	E.A CABLES
19	KPLC
20	Athi River

Appendix 3: Companies Consistent On The Nse-20 Share Index Between 2006 And 2010

B	Firm
1	Sasini
2	Kenya Airways
3	Nation
4	Barclays
5	KCB
6	Stan chart
7	Bamburi
8	BAT (K)
9	E.A.B.L
10	KPLC

Appendix 4 : Share Prices Data Form

COMPANY NAME	
Event Day	Pre-announcement and Post Announcement Share Prices
-20	
-19	
-18	
-17	
-16	
-15	
-14	
-13	
-12	
-11	
-10	
-9	
-8	
-7	
-6	
-5	
-4	
-3	
-2	
-1	
0	
1	
2	

3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	

Appendix 5: Earnings Per Share Data Form

B	Firm	Pre-announcement EPS	Announced EPS
1	Sasini		
2	Kenya Airways		
3	Nation		
4	Barclays		
5	KCB		
6	Stanchart		
7	Bamburi		
8	BAT (K)		
9	E.A.B.L		
10	KPLC		