THE IMPACT OF CAPITAL STRUCTURE ON THE SHARE PRICE OF PUBLIC LIMITED COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION, UNIVERSITY OF NAIROBI

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DECLARATION

This research project is my original work and has not been presented to any University for examination.

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This research project has been submitted with my approval as the University supervisor

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DR. KENNEDY OKIRO

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DEDICATION

This research project is dedicated to my family and friends for their support throughout our course.

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LIST OF ABBREVIATION

CBK Central of Kenya

COC Cost of Capital

CMA Capital Markets Authority

CS Capital Structure

DPS Dividends per Share

EAC East African Community

EBIT Earnings Before Interet and Taxes

EPS Earnings per Share

IPO Initial Public Offer

MM Modigiliani and Miller

MPS Market Price per Share

NSE Nairobi Securities Exchange

NPV Net Present Value

MM Modigiliani and Miller

WACC Weighted Average Cost of Capital

ABSTRACT

Within corporate finance, the most debated topic is capital structure a few scholastics have referred organization's capital structure an unsolved puzzle. Despite the fact that a broad measure of research with respect to capital structure has been directed, there is no uniform response to the inquiry: Is the share price performance of listed companies at the Nairobi Securities Exchange affected by capital structure? The motivation behind the examination is to decide whether there is a connection between a number organizations chose factors and the organizations' share price performance. The examination evaluated past investigations and capital structure theories with a specific end goal to conclude which factors that possibly could affect the organizations' share price performance. In view of the writing, the investigation tested the connection between capital structure and share price performance. Secondary data was collected during a time period of three years, between 2012 and 2016. This research followed a quantitative research method with a deductive approach.A regression analysis was conducted i.e both an Ordinary least square (OLS) and a multivariate analysis to determine whether there is a relationship between the companies selected factors and the share price perfromance. The results indicate that some of the company selected factors have an impact on the companies' share price performance and there are some differences between the companies. The coefficient of determination between the variables are very strong at R=0.613. This is an indication that the relationship between the variables i.e. capital structure, trading volumes and share price performance was very strong. The percentage variation in the dependent variable being explained by the changes in the independent variables i.e. R square equals 0.376, that is, capital structure and trading volume trades explains 37.6%, change in share price perfromance. While 62.4 % are variations which are unexplained by the independent variables. In general, the outcomes demonstrate that a portion of the organization selected factors affect the share price perfomance. In any case, the effect of the companies selected factors is different between the companies. In conclusion, it is obvious from the literature and from the results that capital structure do influence the share price performance of companies listed at NSE. The all the predictor variables were shown to have a significant association with the share price perfromance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Several researchers and economists have conducted comprehensive studies detailing the relationships between various factors affecting the value and prices of publicly traded company' stocks. For example, MM (1958) irrelevance theory states that a firm's capital structure does not affect its security holders' exposure to risks. This means that an entity's total value hardly depends on its financing mix. In other words, MM (1958) believes that a firms' debt and equity proportions' do not have significant impacts on its investment value. This can be attributed to the fact that company's total investment value depends on its risk and profitability and not on the capital structure (James c et al 2008). Values of firms will rise with leverage as per Ross's (1977) model also suggest that the. Modigliani and miller (1963) second seminar paper showed that firm value is an increasing function of leverage due to tax deductibility of interest payments at the corporate level. Amongst firms with many and firms with few positive NPV project the debt policy and equity ownership matter differ (McConnell and Servaes, 1995).

International Journal of business and Management's (1999) research revealed that capital restructuring may involve altering equity or debt that has a direct influence on a firm's liquidity or financial position. That is, increasing debt proportion means a firm will spend a significant portion of income in servicing loan. Similarly, high equity to debt ratio means the company will award high dividends thereby limiting amount of resources it will reinvest in creating more value for its shareholders

(Majumdar and Chibber, 1999, Myers and Majluf, 1984; Miller and Modigliani, 1958; Theorists further argue that the optimal capital structure of a firm is a debt and equity combination that minimizes bankruptcy and agency and costs while creating the greatest value to all stakeholders. In this case, Agency costs are the incremental costs associated with having an agent engaging in transactions on behalf of the debt capital holders. In this case, determination of optimal capital structure management is an agent while stakeholders are principal. However, issuing debt typically produces positive outcome for the firms since determining optimal capital structure is dynamic process (Brealey and Myers, 1996). Given the challenges company faces while using both internal sources of capital and external debts to finance their operations, firms should conduct adequate research about the best time to take loans and issue common stock. That is, firms should carefully reach a conclusion on financing now with debt issue and later stock issue or vice versa. However, such decisions largely depend on market conditions as well as a company's expectations and current financial position.'

1.1.1 Capital Structure

Capital structure decisions play a critical role in firm's financial position as well as ability to create value for its shareholders. Finding the right mix of debt to equity ratio allows companies to access external cash for pursuing new profitable projects. Optimal debt and equity ratios also enable firms to minimize financing costs by eliminating necessary debt servicing expenses. These capital structure benefits may increase company's net profits as well as their performance in the stock markets. However, this does not necessarily mean that altering a company's capital structure impact directly on its stock prices. (James c et al 2008). Studies have demonstrated that organizations that make poor capital structure decisions often suffer increased

costs and decreased performance (Modigliani and Miller, 1958; Jensen and Heckling, 1976). Therefore, it is important to explore how capital structure decisions affect companies that are listed in Nairobi Stock Exchange performances.

1.1.2 Relationship between Capital Structure and Share Prices

Although the capital structure of a company has an influence on fluctuations of its share prices, overall returns that a firm generates from a stock market depends on several other factors. These include a company's profitability and prevailing economic environment, investors' confidence among other factors. However, most companies often use leverage to pursue profitable investments (Daily and Dalton, 2015). This in return enables the firms to create diversified product portfolios thereby increasing the demand for their shares in the market. As a result, the companies share prices may significantly increase than their rivals. However, taking huge debts often come with significant risks. If a company employs debts to finance investments that do not generate the expected profits, it will incur high costs of operations that may in turn reduce its profitability as well as performance in the stock market. Moreover, high debt-to-equity ratios expose a company to financial distress and multiple agency problems. For example, the suppliers restrict credit transactions, key employees and the loyal customers' may shift to rival companies (James et al., 2008).

1.1.3. Companies listed at Nairobi Securities Exchange (NSE)

The NSE started as a voluntary association of stock brokers in 1954. At the time, trading in shares at the NSE was largely agreements between trading parties. NSE also involved professional acting on behalf of their clients until it was registered in 1962. However, the Nairobi Stock Exchange trading volumes significantly decreased

because of the political instability after Kenya gained independence in 1963. This is because the investors were scared that the new government might have imposed unfavorable policies which would have in turn affected their investment returns. The slow performance continued until 1988. At this time the 20% government stake had been sold to Kenya Commercial Bank. As a result, NSE began to record start robust growth. For example, NSE 20-share Index achieved an all-record high of 5030 points on Feb. 18, 1994 (NSE, 2012).

Since the early 1990s, the NSE has grown rapidly over the years. It has also incorporated trade in financial securities such as government and private companies bonds as well as microfinance's stocks. Currently, the NSE has more than 60 listed companies. NSE has structured these listed companies 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 Research Problem

Since public Companies came into existence, Capital structure has been an issue of intrigue in financial literature. However, most of these studies do not focus on the impact of changes in equity and debt proportion to a firm's market value. Therefore, this study will analyze the impact of capital structure on share price of public limited companies. It aims at examining the changes in stock returns whenever a firm alters its debt-to-equity ratio.

Capital structure is irrelevant to a company value (Modigliani and Miller1958) asserted that. However, this proposition led to criticism by many researchers from all over the world. For example, Stephen Ross (1977) argued that firms always signal to the market that they are headed to a prosperous future whenever they take up more debt financing. Mulievi (2009) also found that there is no relationship between capital structure and firm value especially where a firm uses IPO as a proxy for change in capital structure.

Further, the study showed that failure to establish a relationship between capital structure and firm value; results from the fact that increased debt and equity financing particularly through IPO and retained earnings do not significantly affect a firm's net earnings**.** Marc Stouten and JaapSpronk (2006) also assert that despite a vast literature on the capital structure there still is a big gap between theory and practice. This means that economists have divergent opinion as to whether capital structure affects firms' performance in the stock market. Literature further shows that despite the multiple studies on capital structure, the relationship between debt-to-equity ratio and stock market performance still remains unsolved. Therefore, this paper aims to fill this gap by applying these previous researches to the current practices in Nairobi Stock's exchange.

It is a well-known fact that capital structure influences stock market valuation of all firms. This is evident from the significant fluctuations in companies' stock prices during major events such as announcements of stock splits, issue of new shares as well as bankruptcy problems (Olson, Delen and Meng, 2012; Dalal, 2013; Munene 2006; Mulievi 2009). For example, Mumias and Uchumi's share values have

significantly dropped since the company started incurring huge losses. Nairobi Stock Exchange's (2015) statistics show that the companies' share prices have deteriorated persistently over the last two financial years. These is largely because the investors fear that the high leverage ratios will continue to impact negatively on the firm s' financial position and profitability in the foreseeable future. On the other hand, despite profitable companies such as Kenya Orchards and British American Tobacco Kenya have high debt-to-equity ratios, they still attract several investors. Worldwide, leading multinational companies such as Wal- mart, Apple Inc., and Google always rely on debt to finance their investment projects. However, investors have confidence in the companies since they have demonstrated their abilities to create sustainable product portfolios that add constant value to their shareholders. As such, studying the impacts of capital structure companies listed in NSE will play a significant role in helping investors and financial analysts make more informed decisions.

1.3 Objective of the study

To determine the impact of capital structure on the share price of public limited companies listed in the Nairobi Securities Exchange.

1.4 Value of the study

Kenya is currently the fastest developing economy in the East Africa. Particularly, Nairobi Stock Exchange has been attracting international investors after Kenya hosted the Global Entrepreneurship Summit which was officially opened the President of the United States, Barrack Obama (Brau, Cardell and Woodworth, 2015). Therefore, this study finding will help the quoted company targeting such international investors to improve their stock's performance.

The research will also help the local and foreign investors to choose the best strategies for maximizing returns in the Nairobi stock exchange**.** Particularly, the study will focus on understanding why companies follow a given capital when making capital structure decisions, which might be different from their expectations.

At the same time, the study will allow corporate management to find comprehensive solutions to agency problems which may affect their companies' performances in the Nairobi Stock Exchange Market. The study further provides effective tools for strategic decision-making purposes regarding various financing methods and their firm value impact. In other words, the research findings allow corporate managers access to key information 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. Additionally, the study involves challenges leading public traded companies face in creating sustainable strategies for maintaining high performances in the ever changing economic of financial markets.

Furthermore, the study will provide Kenyan investors with empirical results from data they can relate with. The investors will be able to choose firms with optimal debt-to-equity ratios that not only improve management's governing styles but also do not face bankruptcy and liquidation problems due to extraneous interest payments. Therefore, the study will benefit the brokers in the stock exchange as they seek to get information on quoted firms in order to advice their clients on which stock to stake their money. For example, the broker or agent will be able to provide their clients with first hand information that best fits the client. The paper provides international and local lenders with a tool for identifying over and underleveraged companies.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This study investigates the impact of capital structure on public limited companies' share prices. Therefore, the researcher chose past studies on the subject and thereafter critically reviewed them in light of prevailing circumstances in the Nairobi Stock Exchange Market. The chapter comprises three sections; section 2.2 and its subsections explain the theoretical literature review, section 2.3.and it subsections explains the determinants of share prices, section 2.4 discusses an empirical review, section 2.5 discusses the conceptual framework and section 2.6 summarises literature review.

2.2 Theoretical Literature Review

This section discusses the 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. The section compares and contrasts various scholars' views on capital structure theories. However, the study concentrated mainly on controversy between the Miller-Modigliani (MM) capital structure irrelevancy theory and other capital structure relevance theories such as trade off theory, pecking order theory.

2.2.1 Modigliani and Miller

Modern capital structure theory began in 1958 when MM published article that many economists believe to be the most influential finance publication to be ever written. This MM's study was based on the assumption that if firms would have not been incurring brokerage taxes and bankruptcy cost then the investors would be borrow at the same rate as corporations. MM further asserted that if all the investors just as

management have similar information about future investment opportunities of a firm then firms' earnings before interest (EBIT) isn't influenced by the utilization of debt (Michael C. and Eugene B, 2003).

However, since Weighted Average Cost of Capital (WACC) is a combination of debt and equity costs that a firm incurs while pursuing particular investments, capital structuring might affect investment returns. For example, a relatively higher cost of equity over debt will hinder firms' ability to pursue profitable investment opportunities. At the same time, taking higher debt increases firms leverage position which in turn drives up cost of equity (Ke). On the other hand, MM argue that Ke will increase to keep the WACC at constant in such a case. In other word, if MM assumptions are correct, capital structure decisions are irrelevant. That is, capital restructuring does not significantly impact on a firms overall's share value (Michael and Eugene, 2003).

Nevertheless, MM dismissed the assumption that corporate taxes do not affect firm's investment returns in 1963. According to Michael and Eugene (2003) MM showed in their 1963's seminar paper that value of a firm is leverage increasing function of that may affect a firm's value since interest payments are tax deductibles. This is because the tax deductions encourage businesses to borrow more loans which may attract more value to the shareholders.

2.2.2 The Modern Trade – off Theory

The modern theorists view capital structure in terms of a trade-off between agency/bankruptcy costs and the tax shield on debt interest. For example, Jensen and

Heckling (1976) asserted that agency costs are core determinants of capital structure. That is, Jensen and Heckling's argument was based on 1972's study by Fama and Miller. The study not only introduced the idea of separating ownership from control but also pointed out the possible conflict interests between owners and managers which often increase agency cost. There are three main types of agency costs associated with capital structuring which arise due to asset substitution affect, underinvestment and cash flow problems.

In asset substitution as Debt/Equity ratio (D/E) increases, there is an increased incentive by management to do risky (even negative Net present Value (NPV) projects. Michael and Eugene (2003) cite that this is because if the project is achieved, share holders gain most of the profits. On the other side, if the project fails debt holders suffer. On the off chance that the ventures are embraced, there is a possibility of firm esteem diminishing and a riches exchange from debt holders to investors.

In underinvestment problem whenever a debt is risky (e.g., in a growth company), the project gains often accrue to debt holders rather than shareholders. Therefore, management may reject positive NPV projects including those that would have increased their firm value.

In free cash flow a firm management may not create more value if it does not issue the free cash flow back to investors and instead invest it in projects such as empire perks and building. Financial discipline on management is imposed by increasing leverage. According to Chung, Na and Smith (2013) the neutral mutation and market timing hypothesis also explain other agency costs may not impacts on the firm's net

value. That is, the neutral mutation hypothesis states that although firms often employ various financing techniques, associated costs offset the positive returns. On the other hand, market timing hypothesis argues that capital structure is the accelerated investment effect and historical cumulative timing of the market. Chung, Na and Smith (2013) further cite that this is evident from the fact that levered firms invest fast because of default risk which may significantly reduce investment returns.

In addition, debt create new agency problem between shareholders, management and lenders. As a result, the lenders considering offering loan facilities to companies base their decision on assessment on the risk, business profile and financial aspects especially expected future cash flows. These factors also influence the interest rate the lender charges. However, some companies often take advantage of lenders by investing the funds in risky projects other than those they disclosed to the lenders. This called asset-substitution problem. All the protective cost arrangements accrued by lenders is an agency cost.

However, total agency costs may reduce whenever a firm uses debt in its capital structure. Dalal (2013) explains that a firm is exposed to an external audit or scrutiny or audit by an increase in debt exposes the firm. This is because financers and lenders analyze and assess firm's management capability, risks and finances before providing funds. This reduces firms' total cost by minimizing the need for monitoring and associated supervision expenses. Furthermore, fixed interest and principal payment on debt may expose a company to bankruptcy and financial distress thereby affecting the firm's profitability. In such a case, suppliers restrict credit transactions; key employees may resign; customers lose faith in the company's ability to meet their

needs; the production department lack access to high quality manufacturing inputs; and management lack funds for conducting research and development projects (James et al., 2008). Since debt accounts for the modest proportion capital structure, companies incur minimal bankruptcy costs that do not have significant effect on overall debt or equity capital.

As a firm increases its debt proportions, its Ke and Kd also rise at an increasing rate thereby lowering a firm's ability to achieve required rates of return. Olson, Delen and Meng (2012) cite that Ke is always affected more than the Kd because debt claims have a more priority over equity. Similarly, financial distress can reduce equity value before debts claims will be impaired. Olson, Delen and Meng (2012) further cite that the debt ratio can increase to high such that it poses imminent bankruptcy threats causes Ke and Kd curves to turn increase sharply. Beyond that point the firm simply cannot borrow or obtain additional equity funds in the capital markets.

2.2.3 Pecking Order Theory

All firms have a hierarchy for financing decisions that they prefer as per this theory. First, most organizations prefer internal financing to the external sources. Such internal finances do not only require flotation costs but also protect the company's from disclosing its confidential information to the public which may otherwise affect the firm's competitive advantage. Secondly, companies should use cost effective external sources such as debt, convertible securities, and preferred stock. Myer (1984) argues that these financing sources also enable a firm to maintain control over its activities. In contrast, some external sources such as common stock create agency and other related costs (Hawawini and Viallet, 1999).

In short, the theory is based on two main assumptions asymmetric information and management strategies to capitalize on existing marketing opportunities. Dalal (2013) cites that asymmetric information occurs when organizations' managers know more about their firms liquidity position as well as future growth opportunities than the external stakeholders. Therefore, managers keep information from making open divulgences about the organization's speculation openings and potential benefits to be acknowledged from putting resources into them. However, managers have the responsibility to act in company's shareholder best interests. Myers & Majluf (1984) argue that this may mean forgoing NPV project that are positive if it requires new equity issue. Since pursing the project's value will lead to new shareholders at the expense of the old.

2.3 Determinants of Share Prices

Few Kenyan economists have conducted studies to determine the relationship between stock prices and capital structure. For example, Munene (2006) studied the impacts of finance sources to the profitability of 48 companies whose shares traded in the Nairobi Stock Exchange between 1999 and 2004. The study concluded that between the companies' capital structure and profitability there was a weak positive relationship. This indicates that factors other than capital structure contribute to firm's overall performance in the stock exchange markets.

Similarly, Mulievi (2009) found that between capital structure and firm value where initial public offering (IPO) is used as a proxy for change in capital structure there is no positive correlation. The study further revealed that by issuing shares to the public through IPO each firm increased its equity. Some firms also borrow more debts to

finance their operations along the newly acquired equity. Consequently, the debt ratio does not change with the market price per share (MPS), earnings price per share (EPS), net total earnings.

Fitims and Media (2008**)** also analyzed factors influencing listed and unlisted companies' leverage in Macedonia. The study samples included 62 companies listed in Macedonian Stock Exchange Market. These included 32 non-financial companies and 30 small and medium businesses. Fitims and Media (2008) used the data they derived from the company's annual report to analyze whether the firms' leverage was in line with the theoretical expectations proclaimed in previous studies.

The researchers also studied if there could be disparity between listed and unlisted companies. Therefore, Fitims and Media (2008) used non-debt tax shield, growth rate, size and tangibility as independent variables and leverage as the dependent variable. The study findings were consistent with Trade off Theory and Pecking Order Theory but differed with agency cost theory's assumptions. Overall, Fitims and Media (2008) found that Macedonian unlisted companies used more debts than listed companies. Whereas tangibility, size, non-debt tax shield, and growth did not significantly affect capital structures decisions for Macedonian listed companies.

2.3.1 Bankruptcy

Increased leverage creates costs such as bankruptcy and risk management costs scare off lenders and investors therefore significantly affect firms' future growth. However, companies can create optimal capital structure where bankruptcy costs and taxes,

would exist along with all the other behavior tenets of the M & M (Kundakchyan and Zulfakarova, 2014).

2.3.2 Taxes

The net tax advantage of a debt decreases the cost of capital of a firm. However, bankruptcy's prospects often become increasingly important thereby the cost of capital is casued to decrease at decreasing rate as financial leverage increases. James (2008) argues that the bankruptcy effect might more than offset the tax effect, causing the cost of capital of a firm to rise as financial leverage became extreme.

2.3.3 Agency Cost

Increase in financial leverage beyond some threshold, increases agency cost. As such, the combined effect of bankruptcy and agency cost limits the range over which the net tax-shield benefits have a positive effect on share price**.**

2.4 Empirical Literature

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 between capital structure and profitability of firms there is a weak positive relationship 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 between capital structure and firm value there is no relationship. This is where IPO is used as a proxy for change in capital structure ; the study further found out that this failure to establish that between

capital structure and firm value results there is a relationship 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 and Media (2008) carried out a research in Macedonia to analyze factors influencing companies' leverage of Macedonian listed and unlisted companies. They selected two samples. Analysis was made to determine if the decision of the companies concerning the leverage was in line with the theoretical expectations proclaimed in previous studies. The study also aimed at determining existence of disparity between listed and unlisted 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.

A study by DeAngelo et al (1980) shown that in the specific instances of rights issue, the correlation to market –timing is shown to exist. In addition, firm life cycle is found to have a high correlation to the probability in the first year of listing compared to a 2.5% probability for firms listed for more than a year. The life cycle stage was found to be a more significant predictor than market – timing opportunities 71%more likely to conduct a seasoned – equity offering than firms listed for 20 years with excellent market opportunities.

Healy and Palepu (2001) examined the changes in risk, analysts earnings focusand changes in earnings. The study sample constituted 93 seasoned equity issuing firms that are listed on the American Stock Exchange and the New York Stock Exchange. There was no change in analyst earnings forecasts found there was evidence of risk increase following the offering. In contrast, there was a decline in firm earnings subsequent to security issues as per John (1986). The performance of long term cash flow of firms that are publicly traded issuing common stock, convertible debt or straight debt was examined. Concentrating on flagging clarification for the decrease in perfomance, they find that in spite of the fact that issuer perfomance decays,issuer still performs superior to anything different firms in their enterprises and that organizations with bigger offerings have more noteworthy decreases in perfomance. Loughran and Ritter (1997), and Mc Laughline et al (1996) look at the progressions in working perfomance for sample that is large of prepared issuers of equity. The two investigations locate that working perfomance of issuing firms decreases ensuing to the issue. Loughran and Ritter (1997), and Spiess and Affleck - Graves (1995) locate that equity offering firms have poor post issue stock perfomance. Spiess and Affleck Graves (1995) find that debt issuers likewise have poor perfomance of stock price

D'Mellow et al (2003) researched on the sequence of seasonal equity offering (SEO). They investigated the connection between period returns announcement and the arrangement of equity offerings for mechanical, budgetary, and utility firms making numerous offerings. For modern firms, there was monotonically positive connection between the profits and the arrangement of the issues. Further, the stock value responses to the fourth and consequent issues by mechanical firms were irrelevant. For firms that direct no less than two equity offerings, there was no distinction in

returns between modern firms and utility or monetary establishments. The lower negative returns for later declarations by modern firms could be clarified by diminished antagonistic choice expenses

Past examinations propose elective clarifications for the positive connection between announcement returns and sequence of equity. Loughran and Ritter (1997) and Spiess and Affleck Graves (1995) locate that extensive and develop firms will probably direct various value issues. Accordingly, the positive connection between firm size or age and declaration period returns. Essentially, Affleck et al (1995) find that the market response to corporate declarations has turned out to be less articulated after some time since equity issues directed later in the grouping will probably be reported in the second 50% of the example time frame, the example in declaration period returns may really be a day and age instead of an impact of sequence.

Tsangarakis et al (1996), analyzed the shareholders wealth effect of issues of equity in markets that are emerging with evidence from rights offering in Greece. His study investigated the price of common stock price response to declaration of common offering in Greece amid the period 1981-1990. Equity offering in Greece appear as "rights issue" as opposed to the "general money offers" which are the subject of most experimental investigations breaking down valuation impacts of equity offerings in the U.S. A vital distinction between these two strategies for raising equity capital is the likelihood of riches exchanges from new to old investors emerging from the data asymmetry amongst administration and outside speculators. Rather than general money offers, in rights issue the new investors are obtained by existing investors. In this manner, to the degree that every single current investor practice their pre-emptive

rights, the riches exchange impact portrayed by Myers and Majiuf, (1984) ends up plainly immaterial. Therefore, any stock value impacts related with declaration of rights issue can't be credited to this data impact. The capacity to separate this impact influences rights to issue a perfect specimen for facilitate examination and comprehension of stock value response to declaration of equity.

Asquith and Mullins 1986, report that financial specialists respond contrarily to declarations of offerings of equity that are seasoned. These investigations normal the declaration time frame returns over all essential SEOs and finds that the decrease in stock costs for mechanical firms is roughly 3%. The certain supposition behind the procedure of averaging returns is that all equity issue declarations are autonomous perceptions and for a firm that directs various issues, financial specialists don't respond any distinctively to the declaration of the initial couple of offerings than to those reported later in the succession.

Nonetheless, for a firm that issues equity regularly, the market response to later equity declarations could be not quite the same as the response to prior offerings in light of the fact that a company's trademark change each time it issues value. A firm that has made a few SEOs will for the most part be bigger and more develop and henceforth less dangerous than when it at first issued value. Essentially, a firm that has sold value frequently might be liable to less data asymmetry since it is expansive and in this manner more inclined to be trailed by experts and the mainstream press or on the grounds that speculators and budgetary middle people have understood its perfomance each time it raised assets. On the off chance that speculator's response to erquity issue declaration are influenced by the level of data asymmetry or by firms particular

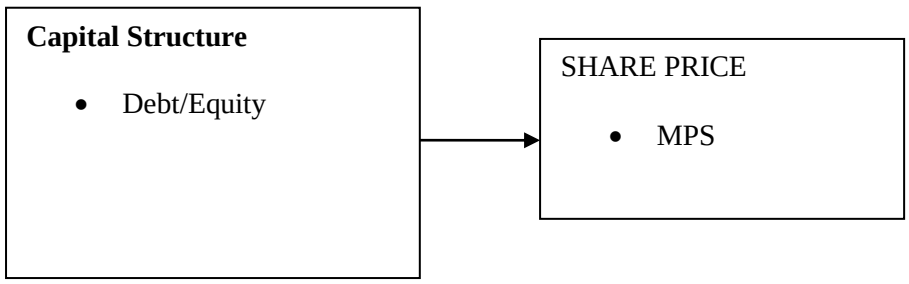
attributes as analysts have archived, at that point declaration period returns for later offerings of a firm will be more positive than for prior issues.

2.5 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 2.1: conceptual framework

Independent Variables **Dependent Variable**



2.6 Summary of Literature Review

Many studies have been carried on the area of capital structure (Chung, Na and Smith, 2013; Dalal, 2013; Olson, Delen and Meng, 2012; Kundakchyan and Zulfakarova, 2014).). These studies emphasized that capital structure decisions are critical to achieving companies' strategic objectives. This indicates that capital strategic decision is a key challenge facing most companies currently trading in the Nairobi Stock Exchange.

The studies have also shown that change in capital structure presents effective tool for evaluating share price reaction. For example, the diagram in appendix 1 below depicts effects of changes in leverage on not only security issue but also on share price reaction especially after an IPO announcement. However, most previous studies

did not clearly establish the relationship between capital structure and firm value in rapidly emerging stock markets such as the Nairobi Stock Exchange. In addition, few studies have investigated the impact of capital restructuring on share price whenever actual equity proportion increases over debt.

Kundakchy and Zulfakarova (2014) argue that several factors influence the financing decisions of firms. Nearly all these decisions are industry and firm specific. Owing to this reason, it is increasingly difficult to recommend a comprehensive and conventional capital structure policy for firms. Myers (1984) termed this as the "capital structure puzzle". Several other academicians have also tried to design strategies to address various facets of capital structure. Nevertheless, subsequent scholars have always documented limitations in such earlier studies. As such, this study will examine the main changes in the public limited firms' shares performance and other financial ratios as they change equity and debt proportions.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The research methodology is detailed in this section. 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.

3.2 Research Design

Cross-sectional research design that focused on a specific point in time for determining capital structure and value of the firms was put to use. The present speculations of capital structure all add to basic leadership hone however certain parts of the hypotheses are firmly disproved.

Critically, finance directors' feelings are not completely reliable with both of the principle speculations. There are a few conceivable explanations behind this. Plainly, the capital structure choice is a complex, multi-dimensional issue. People have limited objectivity so it would amaze if all components were considered. Also, a few reactions may reflect hierarchical gradualness in adjusting to changes in the important condition. In addition, financing choices are probably going to be the result of complex gathering forms. Capital structure hypothesis isn't (yet) ready to catch these complexities due to lack of the use of dynamic regression models in methodology to capture or recognize various relationships over time.

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.

The study is intended to determine the effect of capital restructuring on firms quoted on the NSE and how this has affected their share price. This design will be adopted to ensure proper representation of all the firms quoted at NSE as most of the studies done previously were sector specific or panel based. Firms quoted on the stock exchange represent a mixture firms in different sectors e.g. finance and investment sector, agricultural sector extra, this give a true picture of Kenyan situation.

3.3 Target Population and Sample size

The research population represents the elements that were studied in the research. These consist of all the 64 firms quoted on the Nairobi securities exchange as information for these firms is likely to be easily available.

3.4 Sampling Design 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 has 64 listed companies whose shares trade at the NSE, which was the population.

3.5 Data Collection Methods/Instruments

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 2012- 2016 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 was 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. The data was then organized and tabulated to summarize and carry out the necessary analysis.

3.6 Data Analysis

Statisticsl package for social sciences (SPSS) will be utilized as a guide in the examination. The scientist lean towards SPSS as a result of its capacity to cover an extensive variety of the most well-known measurable and graphical information examination is extremely efficientIn line with the objective o f the study, the study will use a regression model. The regression model will seek to establish the relationship between capital structure and the share prices. The regression model will be

$Y=\beta_0+\beta_1 CR_t+\beta_2\ TV_t+€_t$

Where: Y=market price per share, CR_t =Capital Structure (debt/equity ratio),TV_t =Trading Volume (Ln of Shares Traded), B0=constant or intercept, β1= regression coefficient, β2=regression coefficient, $€_t$=error term

Tests of significance was used to determine whether the results were significant especially for achieving objective stated earlier. No tests of validity or reliability was done on the data as the data was mainly secondary and invalid or unreliable data is not likely to be collected by the researcher.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains the analysis of data that was collected for the purpose of establishing the impact of capital structure on the performance of share prices of companies listed at the NSE. This chapter is arranged in three sections; descriptive statistics, correlation analysis and regression analysis.

4.2 Descriptive Statistics

Descriptive analysis involved the tabulation of the highest and lowest values, the mean and standard errors. Data was also analyzed for skewness and kurtosis. Skewness measures the absence or presence of symmetry. A distribution is said to be in symmetry when it appears similar to left side and right of the inside point. Kurtosis measures whether the information are crested or level with respect to an ordinary circulation (Cooper and Schindler 2008).

The study determined the measures of capital structure which included the debt and equity of firms listed at NSE. The gain on market price per share ratio was measured by looking at the percentage changes of share prices in the beginning and at the end of the period. The pertinent findings are as shown in Table 4.1

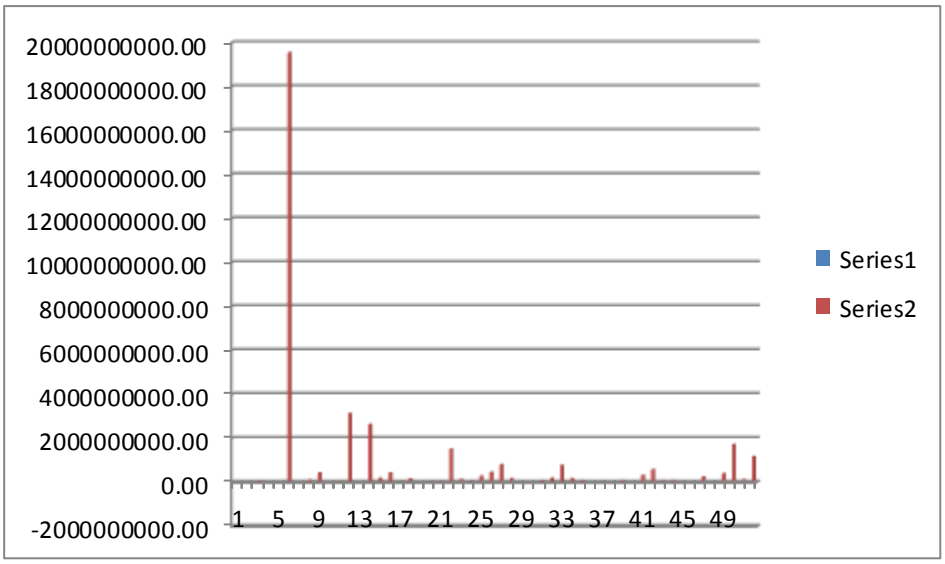
Table 4.1: Descriptive Statisticsof the Study Variables

	N	Minimum	Maximum	Mean	Std. Deviation
MPS	52	-.87	35.67	1.4971	5.08485
VOLUME	52	10.79	23.70	17.9964	2.40729
CS	52	.00	1.10	.4038	.27222
Valid N (listwise)	52				

Source: Author (2017)

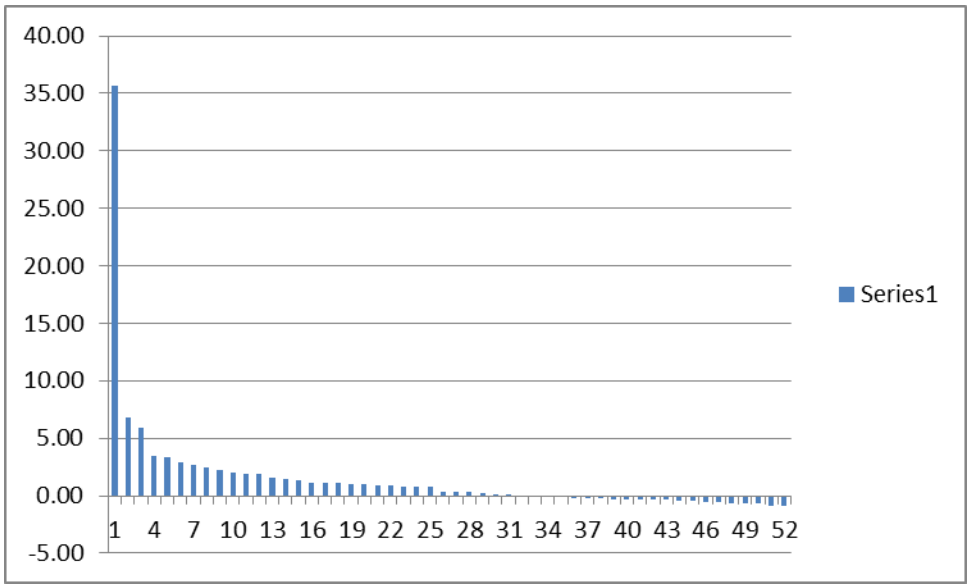
The descriptive statistics in the table above shows that the mean leverage for the listed companies was 0.4038 and the maximum and minimum were 1.10 and 0.00 respectively.The mean for the mean for the Market Price Per Share was 1.4971 with a minimum and maximum of -0.87 and 35.67 respectively. The standard deviation for the capital structure was 0.2722. The mean for Trading voulmes was 17.9964 with a minimum and maximum of 10.79 and 23.70 respectively. The standard deviation for the trading volume was 2.40729.

Figure 4.1: Trading Volumes



From figure 4.1 there is an indication that the average highest trading volume was for Safaricom at 19.5 billion shares followed by Equity group holdings at 3.2 billions shares. Over the study period the list traded shares were for Kenya Orchards at only 48,500.

Figure 4.2: Stock Price Performance



From figure 4.2 the highest company with the highest market share gain was Kenya Orchands at 3,566.67% followed by Kakuzi at 682.61%. The worst company companies were Carbacids and Kenol/Kobil with price decreases of -84.12% and -86.82%.

4.3 Relationship Analysis

In this section statistical tests were done with the aim of determining the existence of a connection between capital structure and performance of share prices. SPSS programs have mainly been used for these tests.As per Keller, (2005) a standout amongst the most generally utilized estimations so as to test the connection between factors is Pearson correlation coefficient. This measures the quality of a direct connection amongst a number of factors. The scope of conceivable connection

coefficients extends between -1 and 1. An ideal negative straight connection between the factors and a relationship coefficient is inferred by -1 while an ideal positive connection between the factors is inferred by 1 (Keller, 2005). On the off chance that the connection coefficient is equivalent to zero then there is no connection between the two factors and they are autonomous to one another. Be that as it may, is it once in a while the connection coefficient depicted above and the relationship is much of the time situated between the extreme positions.

Notwithstanding, despite the fact that the connection coefficient is generally utilized as a part of these types of studies, the estimation isn't perfect but contains a few constraints. One of the real downsides is that it just uncovers how solid a straight connection is between two factors, thereby different connections than direct are avoided. Another disadvantage with the estimation is that it does not demonstrate the setback of the relationship. It just determines the existence of a connection between the factors but doesn't clarify that one factor causes the changeability in the other factor.

Table 4.2: Correlations Analysis

		MPS	VOLUME	CS
MPS	Pearson Correlaton	1	-.441**	-.013
	Sig. (2-tailed)		.001	.026
	N	52	52	52
VOLUME	Pearson Relationship	-.441**	1	.711**
	Sig. (2-tailed)	.001		.000
	N	52	52	52
CS	Pearson Correlation	-.013	.711**	1
	Sig. (2-tailed)	.026	.000	
	N	52	52	52

**. Correlation is significant at the 0.01 level (2-tailed).

From table 4.2 above all the indicator factors appear to have a negative relationship between them; with the most grounded (-0.441) being shown between MPS execution and exchanging volume, while there also was negative relationship between MPS execution and capital structure (-0.013). As referred to in Wong &Hiew (2005) the relationship coefficient esteem (r) run from 0.10 to 0.29 is viewed as feeble, from 0.30 to 0.49 is viewed as medium and from 0.50 to 1.0 is viewed as solid.

4.4 Regression Analysis

In order to establish the relationship between variables and the impact of capital structure on shares prices of companies recorded at Nairobi Securities Exchange. Keeping in mind the end goal to decide if there is a connection between capital structure and share prices, the investigation was a regression analysis. The analysis is identified with the relationship coefficient however it likewise incorporates extra factors. As indicated by Keller (2005) a regression analysis is utilized to foresee the estimation of one variable on the premise of other factors. There fundamentally exist

two primary types of regression analysis that is simple linear regression and multiple regressions. Since we have more than one free factor inclcorporated into this study the multiple regression analysis is most fitting for our situation. A multiple regression analysis may incorporate all organization chosen factors (autonomous factors) in one single test and contrast them and the share prices performance (dependent factor). The regression equation utilized as part of the test:

Table 4.3: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.613[a]	.376	.351	4.09702

a. Predictors: (Constant), CS, VOLUME

As indicated in the table, coefficient of determination between the variables are very strong at R=0.613. This is an indication that the relationship between the variables i.e. capital structure, trading volumes and share price performance was very strong. The percentage change in the dependent variable being clarified by adjustments in the free factors i.e. R square is 0.376, meaning that capital structure and trading volume trades explains 37.6%, change in share price perfromance. While 62.4 % are variations which are unexplained by the independent variables. The ANOVA test depicts a statistically significant relationship between the dependent and independent variables (F=14.779, P-Value = 0.000) as tabulated above.

Table 4.4 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	496.149	2	248.075	14.779	.000[a]
	Residual	822.491	49	16.786		
	Total	1318.640	51			

a. Predictors: (Constant), CS, VOLUME

b. Dependent Variable: MPS

ANOVA results (P- estimation of 0.000) in table 4.5 demonstrate that there is a connection between the predictor factors (capital structure and trading volumes) and dependent factor (share price perfromance). An F ratio is figured which speaks to the inter-group variance, divided by intra-group variance. A huge F ratio shows that there is greater inter-group fluctuation (caused by the autonomous factor) than there is inside the groups, alluded to as the error term. The P esteem is 0.000 which is under 0.05 significance level.

Table 4.5: Coefficients of Regression Equation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.057	5.335		5.634	.000
	VOLUME	-1.841	.339	-.872	-5.435	.000
	CS	11.322	2.995	.606	3.780	.000

a. Dependent Variable: MPS

Above are the coefficients for the regression equation for estimating the dependent factor from the autonomous factor. The regression model was as follows:

$$\mathbf{Y = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + e}$$

Where Y = the market price per share performance (measured by percentage change in share prices)

α = constant which is the intercept of the regression equation

β_1, β_2, = the gradient which represents the coefficients of the independent variables

X_1=Capital Structure measured by considering the debt capital divided by equity capital.

X_2= Trading Volume is measured by average traded shares by considering the log of average of traded volumes.

e = error term which reflects other factors that influence market share price performance.

The regression model becomes:

$$Y = 30.057 - 1.841X_1 + 11.322X_2$$

Where: Constant = 30.057, shows that if capital structure and trading volumes are rated at zero, market share price performance be 30.057. X_1=-1.184, indicates that a single step increase in capital structure causes 1.184 steps reduction in market price performance, X_2=11.322, shows that one unit increase in trading volume measured by the log of volumes traded results in an increase of 11.322 in market share price performance.

4.5 Discussion of Findings

The results of the study indicate that the study variables have positive and negative relationships. The study found that capital structure and market share price perfromance had a negative relationship at a 5% level of significance. The trading volume had the highest negative relationship of -0.013 at a 5% level of significance. The relationship between capital structure was strong at 0.711(p=.001).The study found that capital structure and share price performance explains market share price performance. The findings reported a positive and a negative connection between the two predictor variables (capital structure and trading volume) and the dependent variable (market price share performance). As per Limungi (2011) the ex-dividend day behavior of stocks that exchanged at the NSE within the period of investigation demonstrated one of a kind behavior which warranted further contemplation. Be that as it may, by and large most stocks' costs on the ex-dividend day registered a drop.

The outcomes of this research are upheld by the finding of Murekefu and Ouma (2012) in their investigation on the connection between share price performance and capital structure for companies recorded at the NSE set up that there exists a solid connection between capital structure and share price performance. They found out that capital structure therefore affects share price performance. They also found out trading volumes is among the factors that affect share price performance. Mohammed (2010) discovered that for firms cited at the NSE, the impact of Dividend Pay-out Ratio (DPOR) on firm esteem is solid than that of held profit per share when the two are the only informative factors. She likewise reasoned that the declaration of expected dividends do not assume a critical part in the determination of a firm's worth in all industries.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study outcomes in accordance to the study objective. The main objective of the research was to establish the influence of capital structure on the share prices of companies recorded at the NSE. The chapter also presents conclusions and the recommendations to the study.

5.2 Summary of Findings

Research has shown the existence of a connection between capital structure and share price performace. The studies undertaken in Kenya to establish this connection have not attempted to establish why different sectors of the stock exchange behave differently to share price performance. The purpose of this research is to therefore establish the effects of capital structure on the performance of share prices of firms recorded at NSE. This research adopted a descriptive research design. The population of interest in this research will consist of all the 64 firms listed at NSE. In this study emphasis was given to secondary data which was obtained from financial statements covering the years 2012-2016. For the purpose of testing the connection between the variables the inferential tests including the regression analysis was applied to establish the impact of capital structure on performance of share prices. The study found that the two variables contribute 37.6% of share prices performance i.e. unit increase in capital structure contributes to 0.376 in share price perfromance. The conclusion is that capital structure had a positive significant effect on share price performance of companies listed at NSE.

The relationship between capital structure and share price performance is significant for companies listed at NSE. The results indicate that companies with higher leverage does not perform any better. The outcome conforms to past investigations which also have established a negative connection between leverage and performance (Al-Kuwari 2009). The negative relationship could be clarified by the pecking order theory since it expresses that financing from outside is more expensive contrasted with internal financing. The exchange costs for firms with high leverage are in this manner higher. Exceedingly leverage firms opt to keep their internal funds within the firm (Al-Kuwari 2009). This is clarified by the high exchange costs and exceedingly leveraged firms thus need to depend on held income in order to meet their commitments because of the costly outside financing. Since they keep a bigger extent of their profits inside the firm for growth.

The negative connection between capital structure and share price performance can likewise be associated with agency cost of debt. Since the target of an organization is to augument the abundance of investors, the management may embrace activities that support investors to the cost of the bondholders. Most bondholders know about this conduct and they generally attempt certain activities keeping in mind the end goal to keep the exchange of riches from bondholders to investors. A sandout amongst the most widely recognized moves made by bondholders keeping in mind the end goal to keep the exchange of riches is to put prohibitive pledges in the bond contract (Schroeck, 2002). The pledges may express that the organization isn't permitted to pay a higher dividend payout proportion than the greatest level expressed in the agreement. As an organization's leverage expands, the hazard associated with the organization grows and the bondholders may put more serious convents in regard to

growth. Consequently the share price performance decreases as an organization's leverage expands.

A positive and huge connection exists between trading volumes and share price performance of firms listed at NSE and the connection is affirmed by past investigations who discovered comparative relationships (Al-Kuwari 2009). The relationship can be clarified by the agency theory and the shareholder- management conflict (Lloyd et.al 1985). The agency issue emerges between investors and managers since managers in vast organizations tend to possess a little extent of the organization's stocks. Because of the low insider possession, the managers' aims may not be the same as those of investors. Managers might be occupied in actions aimed at growing their individual riche other than expanding the investors' riches.

The agency issue increments as the size increments since size and insider possession for the most part are conversely related. Bigger organizations additionally have bigger and more across the board group of investors. Since the shares held by individual investors turn out to be moderately little, no single investors have impetuses to oversee the managers. For the purpose of diminishing these types of agency costs bigger organizations have to give higher dividend payout proportions contrasted with smaller organizations. These elements add to that larger organizations can raise capital at a lower cost contrasted with smaller organizations.

5.3 Conclusion of the Study

The main aim of the study was to determine the connection between the capital structure and share price performance. The second aim was to determine the existence of differences between trading volumes and share prices. The research question thus

was: What is the connection between the capital structure and share price performance of companies listed at NSE?

So as to answer the above research question, a regression analysis of 64 companies of firms listed at NSE was conducted. The investigation is done based on a period of 5 years that is, 2012 to 2016. The company variables chosen for investigation are: capital structure and share price perfromance. The result is based on the financial reports of the quoted companies. Some findings obtained agree with existing capital structure theories while some findings contradict past research.

Generally though, the findings obtained show that some of the company chosen variables have an influence on share price performance. However, this influence differs between the companies. In conclusion, it is obvious from the literature and from the results that capital structure do influence the share price performance of companies listed at NSE. The predictor variables investigated proved to have a significant relationship with share price performance.

5.4 Recommendations

The investigation has uncovered the factors that have an influence on the share price performance in the companies that are listed at the NSE. The results have achieved the motivation behind the examination and uncovered that capital structure do have a significant relationship to share price perfromance. Both present and potential investors are given data with respect to which factors they ought to while foreseeing future share price perfromance. Investors attempting to foresee future share prices will therefore obtain meaningful data with respect to which organization chosen components to search at while anticipating future prices. Managers may likewise

utilize the study while deciding there performance since they will be given valuable data with respect to which factors they may consider when determining the pricing of shares.

This research has likewise contributed to literature available since few examinations had in the past been carried out on the Kenyan market. This investigation has thus bridged an existing research gap and other scholastics may utilize the investigation as a benchmark case. The investigation has likewise contrasted the outcomes and the current capital structure theories and uncovered which theories that are relevant on stocks recorded at the NSE.

5.5 Limitations of the Study

Despite the fact that the investigation applied regression models and incorporated a lot of stocks in the sample, the investigation contains a few limitations. Three chosen factors were incorporated in the study. However, it is conceivable that other elements left out in this study greatly affect share price performance. Be that as it may, the company chosen elements incorporated in the research are the most generally utilized ones in past studies, and they ought to in this way be pertinent for the investigation.

Another limitation is that the sample contains a bigger extent of substantial tops contrasted with the aggregate populace and the medium tops are to some degree under represented. Yet, the contrast between the sample and the aggregate populace is little, and the distinction ought to along these lines negligibly affect the outcomes. The study affirmed a connection between capital structure and share prices of companies

recorded at the NSE. Therefore, policies guiding the sharing of this information should be availed to enhance market control.

5.6 Suggestion for Further Study

The outcomes and the examination have uncovered some extra inquiries which should be addressed in future investigations. More organization chosen factors than the ones incorporated into this exploration ought to have an influence on the share price performance. It would hence be fascinating to lead a comparative study with other organization chosen factors.

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APPENDICES

APPENDIX I: LISTED COMPANIES AT THE NSE BY SECTOR

	LISTED COMPANIES IN THE NAIROBI SECURITIES EXCHANGE BY SECTOR		
	AGRICULTURAL		**BANKING**
		35	I&M HOLDINGS LTD
1	Eaagads Ltd	36	Barclays Bank Ltd
2	Kapchorua Tea Co. Ltd	37	CFC Stanbic Holdings Ltd.
3	Kakuzi	38	Diamond Trust Bank Kenya Ltd .
4	Limuru Tea Co. Ltd	39	Housing Finance Co Ltd.
5	Rea Vipingo Plantations Ltd	40	Kenya Commercial Bank Ltd
6	Sasini Ltd	41	National Bank of Kenya Ltd.
7	Williamson Tea Kenya	42	NIC Bank Ltd
	COMMERCIAL SERVICES	43	Standard Chartered Bank Ltd
8	Express Ltd	44	Equity Bank Ltd
9	Kenya Airways Ltd	45	The Co-operative Bank of Kenya Ltd
10	Nation Media Group		**INSURANCE**
11	Standard Group Ltd	46	Jubilee Holdings Ltd
12	TPS Eastern Africa (Serena) Ltd	47	Kenya Re-Insurance Corporation Ltd
13	Scan group Ltd	48	Pan Africa Insurance Holdings Ltd
14	Uchumi Supermarket Ltd	49	CFC Insurance Holdings
15	Hutchings Biemer Ltd	50	British-American Investments Company Ltd
16	Longhorn Kenya ltd		
17	Atlas Development and Support Services		
	TELECOMMUNICATION AND TECHNOLOGY		**MANUFACTURING AND ALLIED**
18	Safaricom Ltd	50	B.O.C Kenya Ltd Ord
19	Access Kenya Group Ltd	51	British American Tobacco Kenya Ltd
	AUTOMOBILE AND ACCEROSSIES	52	Carbacid Investments Ltd
20	Car and General (K) Ltd	53	East African Breweries Ltd
21	CMC Holdings Ltd	54	Mumias Sugar Co. Ltd
22	Sameer Africa Ltd	55	Unga Group Ltd

23	Marshalls (E.A.) Ltd	56	Eveready East Africa Ltd
	INVESTMENT	57	Kenya Orchards Ltd
24	City Trust Ltd	58	A.Baumann CO Ltd
25	Capital Holdings ltd		**ENERGY AND PETROLEUM**
26	Centum Investment Co Ltd	59	KenolKobil Ltd
27	Kurwitu Ventures	60	Total Kenya Ltd
28	Home Afrika Ltd	61	KenGen Ltd
29	Trans-Century Ltd	62	Umeme Ltd
	CONSTRUCTION AND ALLIED	63	Kenya Power & Lighting Co Ltd
30	Athi River Mining		
31	Bamburi cement ltd		
32	Crown Berger ltd		
33	East African cables ltd		
34	E .A. Portland cement limited		

Source, (Nairobi Securities Exchange, 2016)

Appendix II: Stock performance Trends from 2012 to 2016

Prices marked with a star(*) have been calculated so as to show the equivalent price after a share split. For example, EABL prices before the split, will be divided by 4 so as to show clearly the gain.

#	Stock	Start Price	Gain	% Gain	End Price	Shares traded
1.	Kenya Orchards	3.00	+107.00	+3,566.67%	110.00	48,500
2.	Kakuzi	23.00	+157.00	+682.61%	180.00	11,379,335
3.	British American Tobacco Kenya	131.00	+777.00	+593.13%	908.00	49,636,551
4.	Crown Paints Kenya	24.75	+86.25	+348.48%	111.00	9,146,607
5.	Williamson Tea Kenya	57.50	+190.50	+331.30%	248.00	4,791,460
6.	Safaricom Limited	3.60	+10.45	+290.28%	14.05	19,547,680,601
7.	Jubilee Insurance Co.	123.00	+327.00	+265.85%	450.00	9,990,284
8.	Diamond Trust Bank Kenya	68.50	+166.50	+243.07%	235.00	100,164,054
9.	Centum Investment Company 0.50	18.75	+42.25	+225.33%	61.00	427,200,763
10.	City Trust	150.00	+298.00	+198.67%	448.00	1,075,900
11.	Unga Group	13.60	+26.15	+192.28%	39.75	27,624,201
12.	Equity Group Holdings	17.60*	+32.40	+184.09%	50.00	3,130,509,917
13.	Limuru Tea Co.	305.00	+466.00	+152.79%	771.00	649,100
14.	Kenya Commercial Bank	23.50	+33.50	+142.55%	57.00	2,635,710,971
15.	Housing Finance Group	19.40	+26.35	+135.82%	45.75	187,542,313
16.	East African Breweries	144.00	+164.00	+113.89%	308.00	420,412,448

17.	Standard Chartered Bank	160.00	+175.00	+109.38%	335.00	29,290,035
18.	CFC Stanbic Holdings 5.00	60.00	+64.00	+106.67%	124.00	148,477,642
19.	Kapchorua Tea Co.	68.00	+69.00	+101.47%	137.00	1,116,300
20.	Rea Vipingo Plantations	13.95	+13.55	+97.13%	27.50	24,553,576
21.	Pan Africa Insurance Holdings	62.00	+58.00	+93.55%	120.00	45,837,800
22.	Co-operative Bank of Kenya	10.60	+9.40	+88.68%	20.00	1,501,827,100
23.	Sasini Tea & Coffee	7.00	+5.85	+83.57%	12.85	122,510,987
24.	Nation Media Group	144.00	+119.00	+82.64%	263.00	65,467,219
25.	WPP ScanGroup	26.00	+19.25	+74.04%	45.25	271,072,833
26.	Kenya Re-Insurance Corporation	12.75	+4.30	+33.73%	17.05	452,011,479
27.	Barclays Bank	12.63*	+4.08	+32.28%	16.70	801,883,085
28.	NIC Bank	43.50	+14.00	+32.18%	57.50	163,924,086
29.	Car & General (K)	44.00	+10.00	+22.73%	54.00	5,314,210
30.	Eaagads	36.50	+5.50	+15.07%	42.00	5,039,000
31.	Eveready East Africa	3.50	+0.20	+5.71%	3.70	74,762,215
32.	British American Tobacco - Uganda	985.00	0.00	0.00%	985.00	
33.	Bank of Baroda - Uganda	1,010.00	0.00	0.00%	1,010.00	
34.	Development Finance Company of Uganda	685.00	0.00	0.00%	685.00	
35.	New Vision Printing	1,790.00	0.00	0.00%	1,790.00	

	and Publishing Company					
36.	Stanbic Bank Uganda	150.00	0.00	0.00%	150.00	
37.	Uganda Clays Limited	105.00	0.00	0.00%	105.00	
38.	A.Baumann & Co.Ltd	11.10	0.00	0.00%	11.10	
39.	Hutchings Biemer	25.00	0.00	0.00%	25.00	
40.	Unilever Tea Kenya	45.00	0.00	0.00%	45.00	
41.	Sameer Africa	6.00	0.00	0.00%	6.00	75,844,220
42.	ARM Cement	90.50	-4.50	-4.97%	86.00	183,137,205
43.	Kenya Power & Lighting	17.00*	-2.55	-15.00%	14.45	763,463,976
44.	CMC Holdings	16.00	-2.50	-15.63%	13.50	157,822,453
45.	Bamburi Cement	165.00	-26.00	-15.76%	139.00	84,083,015
46.	B.O.C Kenya	160.00	-35.00	-21.88%	125.00	5,994,300
47.	Total Kenya	32.00	-8.00	-25.00%	24.00	30,746,094
48.	E.A.Portland Cement	79.50	-21.50	-27.04%	58.00	8,607,000
49.	TPS Eastern Africa	52.50	-15.50	-29.52%	37.00	86,622,502
50.	Standard Group	50.00	-15.25	-30.50%	34.75	5,633,766
51.	Uchumi Supermarket	14.50	-4.45	-30.69%	10.05	313,924,200
52.	KenGen.	15.85	-5.55	-35.02%	10.30	568,768,312
53.	E.A.Cables	26.25	-10.05	-38.29%	16.20	82,249,205
54.	National Bank of Kenya	43.00	-18.25	-42.44%	24.75	81,848,034
55.	Olympia Capital Holdings ltd	10.00	-4.80	-48.00%	5.20	24,076,600

56.	Express	13.00	-6.80	-52.31%	6.20	10,189,320
57.	AccessKenya Group	20.75	-11.20	-53.98%	9.55	238,593,220
58.	Marshalls (E.A.)	27.00	-17.20	-63.70%	9.80	12,037,600
59.	Kenya Airways	28.50	-19.80	-69.47%	8.70	384,793,817
60.	Mumias Sugar Co.	6.75	-4.80	-71.11%	1.95	1,720,729,886
61.	Carbacid Investments	137.00	-115.25	-84.12%	21.75	104,421,300
62.	KenolKobil Co	66.00	-57.30	-86.82%	8.70	1,163,543,340

Appendix III: Debt-to-equity Ratio Calculation For the Selected Companies

Top Performers

	Debt In Ksh "000"	Equity In Ksh "000"	Debt-to-Equity Ratio
Kenya Orchards			
2012	56,271	(55,077)	- 1.02
2013	56,271	(68,846)	- 0.81
2014	56,271	121,111	0.46
2015	56,271	24,822	2.27
2016	56,271	-22,835	-2.46
Kakuzi			
2012	0	1,882,604	0 or 100% equity
2013	0	2,343,95	0
2014	0	2,801,225	0
2015	0	2,904,028	0
2016	0	2,984,728	0
BTA			
2012	7,841,000	9,548,000	0.82
2013	7,928,000	8,474,000	0.93
2014	8,473,000	6,935,000	1.22
2015	9,515,000	7,472,000	1.27
2016	10,165,000	5, 814,000	1.75

Average Performers

	Debt Kshs in "000"	Equity Kshs in "000"	Debt-to-Equity Ratio
Car & General			
2012	1,153,547	1,555,906	0.74
2013	1,203,456	2,456,992	0.49
2014	1,691,860	2,143,154	0.78
2015	1,922,829	2,504,178	0.76
2016	1,653,633	2,704,512	0.61
Eaagads			
2012	0	205,076	0% or 100%
2013	0	243,598	Equity
2014	0	358,453	0
2015	0	402,136	0
2016	0	360,452	0 0
Eveready East Africa			
2012	439,804	403,399	1.09
2013	288, 129	279,405	1.03
2014	275,398	349,489	0.78
2015	140,903	395,915	0.35
2016	294,840	218,463	1.35

Least Performers

	Debt	Equity	Debt-to-Equity Ratio
Mumias Sugar Co.			
2012	2,192,476	14,476,007	0.15
2013	2,395,834	14,592,314	0.16
2014	2,463,448	13,852,279	0.17
2015	3,058,448	9,187,982	0.33
2016	5,245,518	10,641,805	0.49
Carbacid Invesments			
2012	66,180	1,293,757	0.05
2013	28,549	1,476,7365	0.02
2014	44,235	1,652,770	0.02
2015	3,901	1,924,429	0.002
2016	2,183	2,156,883	0.001
KenolKobil Co			
2012	13,677,675	12,705,512	1.08
2013	1,529,666	11,650, 461	0.13
2014	667,552	6,445,725	0.10
2015	14,854,274	6,666,294	2.23
2016	10,409,840	7,330,496	1.42