EFFECT OF RIGHTS ISSUE ANNOUNCEMENTS ON EQUITY RETURNS OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that this research project report is my original work and to the best of my knowledge has not been presented for a degree award to any other institution for a degree award.

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I thank God for this far that I have come. Special thanks to my supervisor who in spite of his demanding schedule was readily available for guidance throughout the preparation of this project.

DEDICATION

I dedicate this project to my family and friends who offered words of encouragement and support.

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ABBREVIATIONS AND ACRONYMS

AIMS	Alternative Investment Markets Segment				
AR	Abnormal return				
ATS	Automated Trading System				
CAR	Cumulative abnormal returns				
СВК	Central Bank of Kenya				
СМА	Capital Market Authority				
EMH	Efficient-market hypothesis				
IPO	Initial Public Offer				
KSE	Karachi Stock Exchange				
MIMS	Main Investments Market Segment				
NSE	Nairobi Security Exchange				
ROA	Return on assets				
ROE	Return on equity				
RWH	Random walk hypothesis				
USD	United States Dollars				
KSH	Kenyan shillings				

ABSTRACT

A rights issue announcement is formal communication to existing shareholders and the general public on a firm's intention to issue additional shares to raise capital to finance its operations. Investors may increase their trading patterns in response to the new information. This study sought to establish the implication of rights issue announcement on equity returns of companies listed at NSE companies for the past five years. Secondary data was computed from 9 companies that met the sample criteria. A standard event study was used to determine if excess returns exist and whether the variances between these returns are connected to the rights issue announcement. T-test was conducted on the daily share prices over the event window to determine whether there is a significant effect of share price on rights issue announcement. The event date was defined as t=0, while the estimation period was 20 days starting from 20 days before rights issue to 20 days after rights issue. The total period covered was 40 days. The study concludes that the equity returns for companies listed in the NSE are very sensitive to the rights issues. The study further concludes that there is an effect of rights issue announcement on equity returns of companies listed in the NSE. Therefore the Kenyan market positively reacts to the rights issue announcements. The study recommends that companies should conduct better and critical analysis before announcement and issuing of the rights to ensure they attract more investors. Companies listed in the NSE should also ensure they closely monitor and evaluate the performance of their companies and follow policies put in place by the NSE so as to make rational decisions on behalf of their clients. The study further recommends that the top management of the companies listed in the NSE should use the rights issue announcement to manipulate the prices of their shares and so that they can check the value of their place in the market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Rights issue is an important basis of new equity capital for publicly listed companies. For rights issue, shareholders are allowed the opportunity to buy new shares at a discounted price to the existing trading value. An observation noted is prior to the announcements of rights issue, is the market forces come into play and share prices change based on this information. The general feeling is that the prices will change because the price will now be cum rights. A corporate news cast often accompanies the rights issue announcement to justify the reason for sourcing for new equity capital. The market will therefore take this information, process it and respond in either a positive or negative manner. If the money raised is utilized effectively then the share price may increase, even though the prospect of extra shares has a dilutive effect (Hillier et al, 2013).

Local and international empirical researches have been done on the study the rights announcement on equity returns. A number of outcomes were comprehensible with the signaling theory, which indicates that new information will illicit reaction from the capital market, precisely when the current stakeholders receive announcement from management on additional equity offering. The other theory to note is the efficient market theory Fama (1970) which states that when all information that is available is fully reflected on the prices of the security, the market is considered efficient. The main emphasis of the current study is to analyze the nature in which equity returns react to the announcement of right issues.

1.1.1 Rights Issue Announcement

A rights issue announcement is formal communication to existing shareholders and the general public on a firm's intention to issue additional shares to raise capital to finance its operations. The firm states the number of additional shares it intends to issue and the price of the shares which is usually lower than the current trading price. Rights are first offered and issued to existing shareholders in proportion to their existing stake holding (Prabina, Raghunathan & Raghunathan, 2007). The rights issue announcement also includes timelines for uptake of the new shares. When a rights issues announcement is made, there are both negative and positive reactions by shareholders and investors. The announcement of rights issue increases investors' confidence on the company's future performance, particularly for companies seeking capital for further expansion. This leads into temporary increase in demand for the firm's shares and consequently increases in volumes of trade. Announcement of secondary equity issue may also elicit reduced volumes of trade, especially when shareholders and investors respond negatively. Shareholders confidence to demand for more investment in stocks is influenced by the announcement of a secondary equity issue, which may be an optimistic indicator that the firm is expected to achieve better results in future due to the added investment (Becket, 2012). Technical analysis of improved future performance will lead to an upsurge in demand for the firms shares in which the outcome is likely to increase the share prices, resulting to an increase in equity returns (Musyoki, 2012).

Rights issue announcement convey positive signals about issuing firms to investors. Investors may increase their trading patterns in response to the new information. Market statistical model measures the impact of the rights issue announcement on its environs; it links the returns of any given security for the measurability and analysis of abnormal returns. The abnormal returns

will act as a barometer in detecting the stock market's reaction to the announcement of rights issue. If the new information is conveyed in a positive manner, market participants may be able to seamlessly reach an agreement on the value of issuing firms and increase equity returns.

1.1.2 Equity Returns

Profitability gained by the firm from funds financed by shareholders is defined as equity returns. The return on equity is an inevitable measure of profitability; Zeynep Ugur (2006).Shareholders' investments are measured by the profitability of the return in equity. It acts as an indicator of the yield return on each dollar contributed by the common shareholder.

Equity returns is measurable by the financial ratio known as return on equity. Shahid *et al.*, (2010) defines Return on equity (ROE) as the proportion of net income after the deduction of preferred dividends of a firm to its shareholders' equity funds during that year. The most broadly utilized estimations of the corporate monetary execution is the ROE (Rappaport 1986). In the request of money related proportions, the ROE is viewed as a standout amongst the most profitable proportion for any speculator. Shahid *et al* (2010) contends that ROE is ascertained by taking the benefit after expense and inclination profits of a given year and separating it by the book estimation of value (common offers) toward the start of the year. Normal value can likewise be utilized. Correia *et al* (2003), on their part, affirmed that the three constituents can be portrayed (in grouping) as benefit, resource turnover and money related use. Moving forward profitability will result in increased equity returns; this can be mainly achieved by utilizing assets in an efficient manner and enhancing financial leverage.

1.1.3 Rights Issue Announcement and Equity Returns

Declaration of a rights issue typically evokes diverse reactions among the speculators. Several outcomes are in agreement that new information elicits a reaction to the capital market this conforms to the Efficient Market theory. The announcement of the rights issue will trigger the stock market to react positively or negatively depending on the informational efficiency of the market. In a market that is inefficient the asset price will be probably not be expected to promptly reflect new information regarding the rights issue announcement and excess returns may be earned by an investor who has access to superior information. In this market rights issue announcement has a significant impact on equity returns in the period before and after the asset price, making it difficult for any investor to possess any superior knowledge, thus earning abnormal returns. In this market rights issue announcement has no significant impact on equity returns in the period before and after the announcement has no significant impact on equity returns in the period before and after the asset price, making it difficult for any investor to possess any superior knowledge, thus earning abnormal returns. In this market rights issue announcement has no significant impact on equity returns in the period before and after the announcement has no significant impact on equity returns in the period before.

A number of international and local researches have been carried out to ascertain the effect of rights issue announcement on equity returns. For example, an examination done by Tsangarakis (1996) in Greece found a positive connection between declaration of a rights issue and increment in returns. Nelson (1965) conducted a study in the period of 1946 to 1957, 380 rights offerings were studied by use of monthly data in the United States. The results concluded rights issue announcement had a negligible impact on investor reaction. Rights issue announcement may result in an increase or decrease in stock returns, this is according to the study conducted by Otieno & Ochieng (2015). The share performance of listed firms at the NSE are affected by the rights issue announcement this is according to a local study done by Kithinji, Oluoch and Mugo (2014). Gatundu (2007) conducted a study that confirms stock returns due secondary

equity offering result to movement of price in the periods of before and after the announcement, the movements confirmed that the increase in the shareholders return were abnormal.

1.1.4 Firms Listed at the Nairobi Securities Exchange

In 1954 a voluntary association of stock brokers registered under the societies Act constituted the Nairobi Stock Exchange. The Nairobi Stock Exchange was incorporated under the companies Act cap 486 in 1991; laws of Kenya as a company limited by guarantee and without a share capital (Kibuthu, 2005). A surge in the number of listed companies, establishment of investment banks, introduction of custodial companies led to the development of the Nairobi Securities Exchange market. Securities traded include equities and bonds (NSE, 2013). The privatization of Kenya Airways resulted to the largest share issue in 1996 at the NSE. Demutualization was initiated in May 2006, by forming a committee to execute the progression. In light with ensuring the share index reflected the status of the market, in July 2007 the NSE Share Index was introduced after a review of the index.

An alternative index by the name of (NASI) that is NSE All Share Index was introduced in 2008 index (NSE, 2012). NASI acted as barometer on the assessment of the market performance. All shares traded in the day were incorporated by NASI, this shifted the focus of price movements of specific counters to the overall market capitalization. In 2009 the automatic trading of government bonds was successfully implemented by the Automated Trading System (ATS). The NSE and Central Bank of Kenya (CBK) made a noteworthy step in the automated trading in government bonds, this was significant in depth creation of capital markets through the provision of the required liquidity (NSE, 2013).

Nairobi Stocks Exchange Limited amended its name to the Nairobi Securities Exchange Limited in July 2011. This strategy was to transit the NSE into an all-inclusive securities exchange that supported instruments in clearance of equities, derivatives, debt clearing, trading and other associated instruments. In order to a adopt a new Memorandum and Articles of Association, the Nairobi Securities Exchange changed from a limited company by guarantee to a limited company by shares in September 2011.Online trading was introduced through the accessing the internet, this was supported by the Broker Back Office system that was introduced in October 2011.The integrity of the systems and facilities was drastically improved (NSE, 2013).

NSE had 65 listed companies by the month of June 2017. There are 12 sectors at the NSE specifically; agricultural, telecommunications ,commercial and services, and technology, automobile and accessories, banking, manufacturing and allied, construction and allied, insurance ,investment, energy and petroleum investment services and growth enterprise market segment (NSE, 2016). As one of the world leading developing markets, stocks invested at the NSE have been overrated in the sense that equity announcements will instinctively prompt abnormal stock return.

1.2 Research Problem

The announcement of rights issues, positively or negatively affects the stock returns (Ramirez, 2011). Mixed findings have been conveyed by a number of studies conducted on the effect of rights issue announcement on equity returns of firms. For example, studies done by Suresha and Naidu (2012) in India, Cotterell (2011) in South Africa, and Roosenboom and Kabir (2002)

in Netherlands found the announcement of a rights issue results to the negative response of the share trading system, prompting unusual negative stock returns. The investigation by Miglani (2011) situated in India found the declaration of a rights issue results to the positive response of the share trading system an expansion in stock costs and thusly a positive irregular stock returns. Loughran and Ritter (2005) found out that those American companies that offer rights issues tend to underperform in the long run, as compared to their counterparts that do not.

The announcement of a rights issue by Kenyan firms has been common, however the extent at which at the effect of the rights issue announcement determines equity returns is yet to be fully established. In the local context a number of studies have been undertaken about right issues and its impact on stock prices. For example, a study conducted by Karanja (2006) noted majority of firms experience a decline in share price in the rights issue announcement in the short run. Kakiya (2007) conducted a study on the effects of announcements on equity returns. The findings from the study were that trends in stock returns are dependent on event announcement. Olesaaya (2010) conducted a research on the effects of rights issue on stock returns and he investigated companies listed at the NSE. In his study, prior to the rights issue announcement negative abnormal returns were sited, on the announcement period positive abnormal returns were found and after the announcement of the rights issue negative results. Munene (2006) studied the relationship between profitability and sources of financing of quoted companies at the NSE. A previous study conducted in Kenya, by Gitobu (2000), focused on the influence of macro-economic indicators on returns. Irungu (2012) did a study on the informational content of general election results announcement at the Nairobi Securities Exchange and established that general election results carried a lot of information which affected the performance of shares trading at the NSE.

From the above discussions, it can be seen that the studies conducted have conveyed mixed results on the relationship between right issue announcement and equity returns. The existing studies are inconclusive; while some researchers find significant positive effects; others find significant negative effects while still others don't find any significant effects. This area is therefore riddled with inconclusiveness. This study therefore aimed at investigating the relationship between right issue announcement and equity returns at the Nairobi Securities Exchange. It compares the equity returns of firms before and after announcement of rights issues. The research question that guided this study was; what is the effect of rights issue announcements on equity returns of firms listed at the NSE?

1.3 Research Objectives

To examine the relationship between right issue announcement and equity returns of firms listed at the Nairobi Securities Exchange.

1.4 Value of the Study

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

Corporate management will be interested in this study in order to determine how to solve their agency problems with the shareholders, to enable the management to determine the desire of their principals so as to maximize it over time. The finance managers will be provided with critical decision-making information regarding financing through rights issues, their announcements and their impact on the value of the firm. The information from the study will form the basis for a lot of investment and operation decisions. Corporate managers are proved with insight on how the rights issue offer and issue of additional debt affect the capital structure of a firm and its consequent effects on the general market share price. This will help management to plan and establish how much capital to raise from rights issue that will enhance the value of the firm.

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

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter studies the documented literature on the relationship between announcement of a rights issue and the equity returns, and is organized as follows: review of theories; empirical review and summary.

2.2 Review of Theories

Various theories have provided insights on the internal audit and financial performance. The research is anchored towards the Information Signaling Theory, Efficient Market Hypothesis and The Random Walk Hypothesis. These theories are discussed below.

2.2.1 Information Signaling Theory

The information signaling theory has its origins in (Lintner, 1956). Company managers send signals to investors in the form of communication and corporate financial decisions with the aim of reducing information asymmetry and to enable rational investment (Elton et al, 2009). The foundation of financial communication policy is use of signals. The theory is based on the fact that information is not available on a balanced level to all stakeholders at the same time. In order for firms to send signals to the market, they need to be well aware of relevant, precise and appropriate private information that influence their decisions. One of the strong indicators that the firm has a successful future prospect is the announcement of a rights issue. Firms that are projected to have future stable performance, will attract investors who have the intention of maximizing their returns (Quiry et al, 2011).

Although Modigliani & Miller (1961) argued in approval of the dividend insignificance they also specified that in reality disregarding the perfect capital markets, dividend provides an "information content" which affect the stock market price value. Due to the involvement of many researchers in perfecting the signaling theory, currently it is viewed as the most significant theory. (Bhattacharya, 1979) presented one of recognized studies in regards to the signaling theory which states that expected future cash flow is signaled by dividends.

This theory is applicable to this study as firms having attractive investment opportunities are more likely to signal the market through announcement of future plans, than those with no investment opportunities. In this respect, announcement of a rights issue to raise capital for additional investment and for company expansion sends signal to the investors that such a company has better future prospects, hence positive investors and market response.

2.2.2 Efficient Market Hypothesis

Professor Eugene Fama (1970) developed the efficient-market hypothesis at the University of Chicago; through his PHD which he published in the 1960's. The efficient-market hypothesis (EMH) states that all available information is reflected on the asset price. Efficient capital market is a perquisite to work effectively in mainstream economies. An efficient market is where prices of regularly traded securities replicate information that is available publicly in relation to assessment and adjustment of first-hand information. Given this scenario; excessive returns is not achievable based on the information availability when the investment is made. The belief was held that the securities market was relaying information efficiently on the stock market as whole and individual stock. The conventional view was securities prices quickly assimilated any information that arose in the market and this was done almost. Therefore, an

investor returns by use of fundamental or technical analysis would not be any better than those attained from an individual stock portfolio.

Fama (1970) the classification of market efficiency into categories was on the basis of how the market responds to information on set. Market efficiency is classified as weak form efficiency, semi-strong form efficiency and strong form efficiency. According to Fama (1970); the weak-form efficiency states that all past publicly information that is available to the investor and future prices may not be determined by analysis of prices from the past. Historical information cannot be used as an investment strategy to earn excess returns in the long run, reason being share prices are not sequentially dependent, this means analysis by use of methods that are technical will not yield consistent excess returns. This indicates that prices are unsystematic and must follow the random walk, price movements in the future are completely an outcome of information that is not confined in the price series.

The semi-strong form efficiency forms a basis for the theoretical background in this study. Adjustment of security prices in a semi-strong efficient market in response to announcements should occur within a very short duration, examples of announcements will include election results, splitting of stocks, rights issue, bonus issue among others. In this market there are no trading strategies implemented to generate abnormal returns, however if any systematic abnormal returns is sighted around the shocks and is utilized to outwit the market, then this occurrence of shocks patterns is deemed as challenge to market efficiency.

In the strong form efficiency, all information that is available to the investor for both private and public is reflected on the share price. Excess returns are not achievable for investors trading in the market. Trading laws are applicable in scenarios where private information is not available publicly due to legal obstacles. A strong-form efficiency market is tested when an investor is unable to earn abnormal returns for a lengthy duration. In a strong form efficient market; even in scenarios where privileged information is available to certain investors they are not able yield superior returns. This theory is applicable to the study in the sense that if the market is efficient the investor will neither underreact or overreact to the rights issue announcement and the reaction would be swift and accurate

2.2.3 The Random Walk Hypothesis

In 1863 a French broker by the name of Jules Renaults first modeled the random character of stock market prices. This was later followed by Louis Bachelier who was a French mathematician during his PhD thesis in 1900. "The Theory of Speculation" (Kuma allan 2001); his contribution to the theory was greatly ignored until the 1950s; It is also important to note that some scattered , independent work was done in early to support his thesis. A number of minor studies indicated that related financial series and US stock prices followed a random walk model.

Alfred Cowles conducted a research between 1930s and 1940s according to him the market could not be outperformed by investors. This establishes the connection between the Efficient Market Hypothesis and the Random Walk Hypothesis and then the Martingale Model. The random walk hypothesis (RWH) and the martingale model dominated content of the EMH literature before Lerol (2013) and Lucas (1978); unforecastable price changes of two statistical descriptions of that were initially taken to be implications of the EMH (Fama and Blume, 1966). Cowles and Jones (1937), developed the first tests of random walk hypothesis where the

frequency of sequences, was compared past stock returns. In interpretation the frequency sequences are duos of successive returns with the similar sign, and the latter are pairs of successive returns with differing signs.

French and Roll (1986) stated a similar concept; over the weekends and holidays stock returns is usually lower the trading market days. This difference suggests that the very act of trading creates volatility; this elicits the signal of Black's (1988) noise traders. This theory transits into efficient market hypothesis (EMH) where reliance on historical information to make arbitrary profits is not possible as public and private information are reflected on security prices (Singal, 2003). It is also applicable to the study in the sense that announcement of a rights issue in this context, may elicit equity returns and random share price changes.

2.3 Determinants of Equity Returns

The determinants of equity returns discussed in this study are interest rate, monetary policy and employment rate.

2.3.1 Interest Rate

Equity returns are significantly influenced by interest rates in terms of the cost of borrowing. If the interest rate increases, borrowing becomes expensive and the value of equity is likely to decline. Czaja and Scholz (2007) stated change in interest rate and stock returns relationship may be examined by the use of the term structure model to examine the relationship between stock returns and the change in interest rate. Their conclusion is the negative effect of the gradient of the term structure will not be constant but vary from one industry to the other. According to Park and Choi (2011), interest rate that is declining is an optimistic sign for equity returns; however if the decline is too extreme this may result to deflation as it signals lack of economic demand

2.3.2 Monetary Policy

According to researchers the equity cost of capital, expectations of corporate profitability and market-determined interest rates are influenced by changes in the monetary policy (Waud, 1970). Bernanke and Kuttner (2005) stated that the linkage between changes in monetary policy and equity returns should factor for the probability that anticipated policy actions could have already been integrated into the market.

A number of studies regarding monetary policy use the level of money supply (M2). Chen (2007) in a study to explain the extent in which monetary policy variables affected equity return, growth rate and change in the Federal fund rate. In a long run study of monthly and quarterly results conducted by Jensen and Johnson (1995) it was discovered that during the expansive monetary periods the expected equity returns are significantly greater.

2.3.3 Employment Rate

Equity returns are influenced by the employment rates this is due to the fact that employment determines the disposable income. Unemployed people will only spend on essential goods and services. Boyd, Jagannathan, and Hu (2005) in a study revealed that the effect of unemployment announcements can have a significant impact on stock market. They further noted that the stock market can be significantly affected by the announcement of rising unemployment.

Flannery and Protopapadakis (2002) states that gross national product and industrial production announcements had no significant impact on the stock market as compared to employment announcements that cause the stock market to experience conditional volatility. Demand is high for both essential and non-essential commodities when unemployment rate is low; this is in turn leads to positive equity returns as people have higher disposable income.

2.4 Empirical Review

Njoroge (2013) conducted a study on the impacts of right issue announcements on share prices of companies listed at the Nairobi Stock Exchange. The study was based on a sample of six rights issues between 1996 and 2002. The study examined whether the average abnormal returns surrounding the rights issue announcement was statistically diverse from zero. The market model was used to derive the probable yields and to test the hypothesis is a t-test statistic was used. Data analyzed for six companies showed negative price adjustment for companies, which issued rights issue. The results document a negative abnormal return prior to the announcement day of the rights issue and a moderate setback thereafter.

Suresha and Gajendra (2012) conducted a study of 90 stocks by use of the event study methodology the period of analysis was from 1995 to 2011. The purpose was to measure the market reaction to rights issue announcement news, this included Price pressure hypothesis and neglected firm hypothesis. They found that in earlier studies, it is obvious that stock returns are significantly affected negatively or positively about rights issue announcement dates. Negative ARR was conveyed by event methodology the outcome was statistically insignificant. During event window no significant change was found in the trade volume, throughout the observation of stocks. In conclusion there was a negative reaction by the Indian to rights issue announcement.

Sakwa (2013) piloted a study on the effect of rights issue announcement on stock returns of companies listed at the Nairobi securities exchange. The study covered a period of ten years from 2013 to 2012. A traditional event study approach was adopted for this study. The mean adjusted returns model as specified in Brown and Warner (1985) was used in this study. This model uses the mean return over the estimation period as the normal return for the security had the event not taken place. A study of 13 out of the 61 companies listed on the NSE that had rights issued during this period was done. A two tailed t-statistic at 95% confidence level was done to investigate the statistical implication of the mean abnormal returns. The outcome of the study illustrates that stock returns react positively to rights issue announcements. A positive mean abnormal return was recorded over the event period with the highest abnormal returns being on day t+2. There was a statistical difference between mean abnormal returns observed during the event period and estimation period for eighteen events and no statistical significance for one event. It was recommended that the Capital market intensifies supervision of market participants to enforce compliance with market regulations and also implement education programs to raise awareness among market participants and reduce information asymmetry.

Bashir (2013) employed event study methodology to measure the extent at which equity returns are affected by the rights issue announcement. The study covers a period of 2008 to 2011 and concentrates on the performance of thirty one rights issues in Karachi Stock Exchange (KSE). By reliance of public information availed during the rights issue announcements a test was conducted to confirm if the investor will incur a gain or loss. The event date of positive abnormal returns was found during the study. However the gain was negligible and did not have any significance on the shareholders wealth, this was statistically insignificant. In conclusion of the study there was no wealth maximization for investors in the Karachi Stock Market in reaction to rights issue announcement.

Miglani (2011) conducted a study of the announcement effect in which a sample of 32 rights issues were used in a view to conclude if the Indian stock market is semi strong efficient; the stock price reaction to the information content was examined. The conclusion of the study was abnormal returns that was statistically significant was found on the announcement & surrounding dates.

Madhuri, Thenmozhi, and Kumar (2013) according to the study carried out on the market reaction of the announcement of bonus issue the outcome was a negative reaction to the bonus issue announcement. In their conclusion they noted that market under reacted after the bonus issue announcement. Kabir & Roosenboom (2013) noted that statistically significant negative abnormal return linked to the announcement effect of rights issues in Netherlands. Mishra, (2005), in an examination of how information content of the bonus issuance affects stock price ,there was a significant positive abnormal returns is the results of a 5 day period prior to the announcement of the bond.

Chen and Chen (2007) observed 205 right issues in the country of China, the findings were around the announcement date, the markets reacted negatively, during the post announcement the market reacted positively. Vergos, Konstantinos, Apostolos and John (2008) examined the effects of various announcement that included political, economic, investment and analysts report on share prices of the organization by the name Hellenic telecommunication. The outcome of the study was public announcement did not impact stock prices until 10 days later after the announcement. Owen and Suchard (2008) reported significant abnormal return associated with announcement of right issue of equity in Australia. Shahid, Usman, Mahmood and Xia (2010) noted the positive market response after the announcement of right issues in china.

Karanja (2006) in an evaluation study of the assessment of post rights issue on volumes traded carried out a study on an assessment of post rights issue effect on firms' share price and traded volumes, a study was conducted on selected nine firms out of a total of fourteen firms that had announced rights issue. The study analyzed the share price for 90 days after the announcement of the rights issue, a decline in share price was noted during the short term period. The study concluded that information asymmetry must be considered as it significantly influences the share price after a successful rights issue. Karanja (2006) further uses the work of Christie William et al who also examined whether the firms judgement to issue rights in place commitment offering is related to post offer price share performance by the firm. Christie William et al had the agenda to confirm if there was a significant or insignificant difference in stock performance after an offering commitment by the firm, and would be in sync with the fact that the firms' obligations are timed. The timing of firms selling shares to existing shareholders through the rights offer did not appear keen to exploit the overrated equity, while the firms selling to the new owners were very keen. Based on the findings the notion supporting market timing influences the pattern of underperformance.

Kakiya (2007) in a study conducted to observe the trends of stock returns reaction to rights issue announcement a study on the effects of Announcements on stock returns. The researcher computed a 5 day moving average. Computation of the day to day cumulative abnormal

earnings and market adjusted abnormal earnings was completed; in addition the t test was done to interpret the outcome of the effect of earnings announcement on stock returns. The findings from the study were that trends in stock returns are dependent on event announcement. Traded volumes are not significantly affected by announcement. Earnings announcement was noted to have a weighty effect on stock returns upon the evaluation of CAR, this was a clear indication of market inefficiency however AR did not have a weighty effect for individual companies. The results of the study were that event announcement has a significance influence on stock returns.

Wabwire, Owuor, Onyuna and Njuguna (2013) conducted a study on issues that may impact the market returns. In addition, the study assessed the effects of the turnover and volume traded on the market return. The study incorporated all the seven recently floated IPOs at the NSE between January 2006 and March 2009. The main results from the fitted linear regression model showed that all IPOs had a significant effect on the market return. This study employed logistic regression to evaluate the effect of the IPO announcement within the 60-day window period on the market index. The study found that all IPOs had positive significant influence on the market return except for Eveready and KenGen.

2.5 Conceptual Framework

Below is a figurative illustration of the variables explored in this study.



Source: Researcher

Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

From the above empirical studies, there has been inconsistency on the research conclusions of the right issue announcement relationship with equity returns. Previous studies indicate that rights issue has relationship with company's share performance (Kithinji *et al.*, 2014; Olesaaya, 2010; Shahid *et al.*, 2010; Owen & Suchard, 2008). The existing studies are inconclusive; while some researchers find significant positive effects; others find significant negative effects while still others don't find any significant effects. This area is therefore riddled with inconclusiveness.

The direction of the Kenyan market may not be generalized as there has not been a consensus on how the market responds to the rights issue announcement, there exists a gap. This study therefore seeks to fill the gap to understand the direction equity returns take when rights issue are announced at NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter is a plan of the methodology that will be used to conduct the study. It explains the research study design that will be employed; the target population from which data will be collected and the data collection and analysis tools that will be used.

3.2 Research Design

The study used a quantitative study and employed a descriptive research design aided by an event design methodology. According to Kothari (2004), event studies are empirical studies performed on a security (in this case a portfolio of securities) in which experienced a significant catalyst incident that radically transformed in value as a resultant of the catalyst. The event can have either a positive or negative effect on the value of the security. The catalyst in the study was a rights offer announcement, and changes are as observed in equity return changes as a result.

3.3 Population

The research population was all the 65 companies that are listed at the NSE as at June 2017. The population of relevance was the companies that have announced a rights issue between January 2012 and December 2016.

3.4 Sample

MacKinlay (1997) outlines the necessity for criteria on which firms are included in an event study. The criteria applied for acceptance into the sample is in line with Pascoe, Watd and

MacKenzie (2005). The sampling method to be used was purposive sampling in order to pick the firms that meet the criteria above.

3.5 Data Collection

The study mainly used secondary data. Data was collected from the Nairobi Securities Exchange. Secondary data was obtained from stock prices, market index, and announcement dates. A data collection sheet was used to capture information on companies that announced their rights during the period, date of announcement, market index, daily closing share prices and traded volumes over an event window of twenty days prior and twenty days after the rights issue announcement with the day of announcement being day zero. This is because the purpose of the study was to examine the relationship between rights issue announcement on equity return and extending the period of data collection could lead to changes in equity returns due to other market factors.

3.6 Data Analysis

In this research a standard event study was used to determine if excess returns exist and whether the variances between these returns are connected to the rights issue announcement. The data analysis tool in Statistical Package for the Social Sciences will be applied. T-test was conducted on the daily share prices over the event window to determine whether there is a significant effect of share price on rights issue announcement.

From the secondary data sources, the equity returns twenty days before rights issue was announced, twenty days after announcement and twenty days after the rights was summarized in table form to facilitate data analysis. The event date was defined as t=0, while the estimation period was 20 days starting from 20 days before rights issue to 20 days after rights issue. The

total period covered was 40 days. Daily market abnormal return (AR) and daily cumulative abnormal return (CAR) was computed; AR was also computed.

ARct = Rct - E(R)

Where;

ARct = Abnormal return for security c over time t

Rct = the return at time t on security c

E(R) = the expected return for security c at time t

The study employed the market model which gives a linear specification of the return of the offered value to the return of the market portfolio. This model is best since it decreases the fluctuation of abnormal returns by expelling the segment of the equity returns that is identified with variation in the market return, Adelegan, (2009). The market model is specified as:

 $Rc = \frac{P1 - P0 + D1}{P0}$Equation 1

Where:

Rc = Return on security c

P1 = Price after the announcement date

P0 = Price before announcement date

The abnormal return was calculated using the market model below that first shows the linear relationship of returns and market;

 $ER_{ct} = \alpha_{ct} + \beta_c Rm_t + e_{ct}$ Equation 2

Where;

 $ER_{ct} = Expected return for security c at time t$

 α = Alpha (will be the intercept of the characteristic line of the *y* intercept)

 β = Beta (was the gradient characteristic line that gave sensitivity of stock excess return after the announcement)

Rmt = Return on market portfolio at time t

ect = Avoidable risk

The equation for expected return became;

 $ER_{ct} = \alpha_{ct} + \beta_c Rm_t$ Equation 3

Abnormal stock return was calculated by actual return (Ri) less expected return (ERit), computed as follows;

 $AR_{ct} = R_{ct} - (\alpha_c + \beta_c Rm_t)$ Equation 4

Cumulative abnormal returns (CAR), which measures investors' total return over a period starting from 20 days prior to and 20 days after rights issue announcement, was measured as below:-

$$(CARt) = \sum_{t=1}^{t=j} {ARct \choose t}$$
.....Equation 5

The average market abnormal return was estimated as follows:-

$$(MARt) = \sum_{k=0}^{n} \binom{ARct}{N}$$
Equation 6

Where,

N was the number of firms being examined.

Market abnormal return was estimated to determine whether on the average, the rights issue announcement was associated with change in security returns.

Where j denotes day -20 through to a day +20

ARt= the abnormal return for each security over time *t*

3.6.1 Test of Significance

T-test was conducted at 95% confidence level to find if there was significant AR, MAR and CAR after rights issue announcement. The specific objective was addressed by a test on equity returns, and exchange rate volume. The t-test at 95% confidence level was used since the population in the study was less than 30 thus it is very suitable for this study. The event date was defined as t=0, while the estimation period started from twenty days prior the rights issue announcement to twenty days after rights issue announcement.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

In this chapter the key issues related to data presentation, analysis and interpretation have been discussed. This chapter is presents the key data findings on the effects of right issue announcement on equity returns of firms listed at the Nairobi Securities Exchange that have announced a rights issue between January 2012 and December 2016. Data was collected from the NSE. Analysis involves evaluation of abnormal returns around rights issue announcement. The study covered the period between 2012 and 2016.

4.2 Descriptive Statistics

Nairobi Stock Exchange was established as one security exchange in East Africa and the firms that had issued rights from 2012-2016 were selected and identified. Based on the criteria, 9 companies were identified as Kenya Airways, NIC Bank, KENGEN, CFC Bank, Standard Chartered Bank, Longhorn Publishers, HFC Limited, Uchumi and DTB Bank. The findings of the descriptive statistics are presented in Table 4.1

Table 4.1: Descriptive Statistics

	Ν	Minimum	Maximum	Mean	Std. Deviation
Share Price	360	4.63	269.0	62.5678	79.9012
Expected Return	360	0.05	0.99	0.0579	0.7864
Daily return	360	-0.45	0.51	-0.0010	0.08110
Abnormal Return	360	0.05	0.3567	0.3912	1.90872
Cumulative Abnormal Return	360	-0.35	0.419	0.6688	1.56789

Descriptive Statistics

Table 4.1 reveals that the minimum value of an equity price at the NSE was Ksh.4.63 and the maximum value was Ksh.269.00. The mean price was Ksh.62.5678 and the standard deviation for the companies was Ksh.79.9012. The minimum expected returns were 0.05 with a maximum value of 0.99. The mean expected return was 0.0579 with a standard deviation of 0.7864. On the other hand, the daily returns had a minimum value of -0.45 with a maximum value of 0.51. The mean daily return was -0.0010 with a standard deviation of 0.08110. The abnormal returns had a minimum value of 0.05 with a maximum value of 0.3567. The mean abnormal return was 0.3912 with a standard deviation of 1.90872.

4.3 T-statistics for 40 days surrounding event date (rights issue announcement)

In order to determine the sensitivity of the stock price to rights issue announcement, the Tstat for the 20 days before, during rights issue announcement (at t=0); and 20 days after rights issue announcement(Appendix II), if the T – value was close to 2.299, this acted shows that the market share prices were sensitive to rights issue announcement. As shown, it was found that 20 days before rights issue announcement, the T- statistics was negative, which is an indication that the market share prices were insensitive to rights issue announcement. However, on approaching the 8thdate before rights issue announcement, there was an increase in the t-value, which had actually become positive, and on t_{-5} days, the market was found to react sensitively to the rights issue announcement; an indication that there were some speculation by investors. At t=0, it was found that the share prices at the bourse were very sensitive to rights issue announcement as shown by a t-stat value of 2.838. This continued up to t_{+2} , an indication that a few day prior, during, and a few days succeeding the rights issue announcement. This is a clear indication that share prices are sensitive to right issues announcement.

4.4 Average Abnormal Returns during the Announcement of Rights Issue

As shown in Appendix III, the entire market following the rights issue announcements shows that k_{-2} to k_1 had positive abnormal returns of values greater than 1; 3.56, 2.527, 8.97 and 3.8 respectively. The period between k_{+2} to k_{+12} had average abnormal return of less than 1 which means that no investor benefitted from above normal returns pointing at market adjusting to the rights issue. There is no consistent pattern with the average abnormal returns after the rights issue announcement; thirteen returns are negative while seven are positive on a random basis.

This implies that the market does not react fast to rights issues which could point to efficiency, but not perfectly efficiency. The period between k_{-20} to k_{+1} which is the first twenty days had above normal positive returns meaning that the investors enjoyed above normal returns; the peak is on the announcement date k_0 where the average abnormal return is at 8.97. This could point at insider trading just before the rights issues announcement where excessive returns is achievable based on the information availability when the investment is made.

4.5 CAR across the Event Windows

To track abnormal returns over a number of trading days, cumulative abnormal return (CAR) was computed throughout the event period for the rights issues as presented in Table 4.2. It was noted that CAR for the sampled stocks is positive during entire event window. From the results, mean CAR was found to be positive in the period after right issues, which is an indication that the volume traded increased towards the rights issues announcement dates. In the period prior to the announcement of the rights issue, the mean CAR was found to have a negative value, an indication that the market was not sensitive to rights issues announcement, probably because there was a significant information asymmetry in the market. The t-stat value the study found that period surrounding the event date the value of t was close to 2.299, an indication that volumes of trade are very sensitive to rights issues by companies.

Days	Mean of CAR	Variance
t. ₂₀ to t. ₁	112.321	59.3211
t_0 to $t_{\pm 1}$	34.333	19.3332
t.1 to t+1	31.1235	18.9003
T_{+2} to t_{+20}	25.690	1.99952
t-20 to t+20	19.9981	100.62142

 Table 4.2: CAR across the Rights Issue Announcement

Source: ResearchFindings

4.6 Effects of Rights Issue Announcement before and after the Offer on the

Companies undertaking the Rights Issue

The null hypothesis stated that there is no significant effect of rights issue announcement on equity returns of companies listed at the NSE; indicating that the population mean before and after rights issue announcement should be equal; i.e. H_0 : $\mu_1=\mu_2$. The hypothesized mean difference is equal to zero and the alternative hypothesis is H_1 : $\mu_1\neq\mu_2$.

			One-sample test		95% confidence level		el
	Volume			Test value=0			
Company	T-stat	DF	T-	Mean	Mean 1	Mean 2	p-
			critical	Difference			value
Kenya Airways	15.679	19	2.356	-1.78	17.08	15.90	0.00005
NIC	-15.678	19	2.356	1.56	27.87	29.30	0.0011
CFC Bank	-5.6901	19	2.356	1.59	49.90	49.23	0.0005
DTB	-3.001	19	2.356	0.90	95.85	102.78	0.04521
Standard	-4.1112	19	2.356	2.98	112.34	154.33	0.0041
Chartered Bank							
KenGen	-4.5574	19	2.356	1.41	43.24	46.06	0.0002
Longhorn	10.234	19	2.356	-33.334	26.890	42.70	0.0003
Publishers							
Uchumi Limited	-2.789	19	2.356	3.4791	45.123	67.2736	0.0012
HFC Limited	5.6790	19	2.356	-2.5901	12.490	18.765	0.0005

Table 4.3: Share prices

Source: Research Findings

The share prices KQ shares were collected and t-test conducted. It was found that the computed t-value was 15.679 which is greater than the t- critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, was rejected. The computed P-value of 0.00005 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

The share prices for NIC shares were collected and t-test conducted. It was found that the computed t-value was -15.678 which is greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, is rejected. The computed P-value of 0.0011 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

The share prices of CFC shares were collected and t-test conducted. It was found that the computed t-value was -5.6901 which was greater than the t-critical value of 2.356, falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, was not accepted. The computed P-value of 0.0005 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

The share prices for DTB Bank shares were collected and t-test conducted. It was found that the computed t-value was -3.001 which was greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, was rejected. The computed P-value of 0.0452 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

For Standard Chartered Bank, the trend of share prices rises and later drops. The share prices for Standard Chartered Bank shares were collected and t-test conducted. It was found that the computed t-value was -4.1112 which is greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, was rejected. The computed P-value of 0.0041 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

The share prices of Longhorn Publishers shares were collected and t-test conducted. It was found that the computed t-value was 10.234 which was greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, is not accepted. The computed P-value of 0.0003 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

The share prices for Uchumi Limited shares were collected and t-test conducted. It was found that the computed t-value was -2.789 which was greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, is rejected. The computed P-value of 0.0012 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

The share prices of KenGen shares were collected and t-test conducted. It was found that the computed t-value was -4.5574 which was greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, is not accepted. The computed P-value of 0.0002 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

The share prices of HFC shares were collected and t-test conducted. It was found that the computed t-value was 5.6790 which is greater than the t-critical value of 2.356, thus it falls within the rejection region. The null hypothesis, H₀: $\mu_1=\mu_2$, was rejected. The computed P-value of 0.0005 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the equity returns performance of companies doing rights.

4.7 Interpretation of the Findings

Empirical results of the study of the which was based on 9 companies form a period of 5 years that is from 2012-2016 revealed the rights issue announcement illicit a positive response of the abnormal returns. The analysis in this study concluded that abnormal profits can be obtained by investors who may sell their shares on the announcement date that is $k=_0$ when the share price is at peak. The investors may again await to buy the shares after the announcement at a profit, the interpretation is the abnormal returns will be greater for his investor with insider information.

The abnormal returns before and after the rights issue announcement was revealed in Table 4.1. As 0.05 as the minimum value, 0.3567 as the maximum, the mean was 0.3912 and - standard deviation of 1.90872. The Cumulative abnormal returns was confirmed as -0.35 as the minimum value, 0.419 as the maximum value, 0.6688 as the mean and 1.5679 as the standard deviation.

The sensitivity of the security prices towards the rights issue announcements as revealed in Appendix II was established by conducting a T-test on the volatility of share prices before and after the announcement of rights issue. Initially from day t_{-20} to day t_{-9} that is day 1 to day 12 there are negative t values However on day t_{-8} that is the 13^{th} day onwards to the day 31 the share price was positive with a peak of 2.935 one day before the announcement of the rights issue.

For investment analysts there will be a rise in their consultation services as the market is inefficient, therefore more opportunities will arise as they will have a technical edge identifying overvalued and undervalued stock. In turn this may ironically contribute the reduction of market inefficiency.

The study also revealed information released in regards to the rights issue announcement by the corporate financial management may not necessarily generate the excepted response due to insider information. This means that the release of information by the stakeholders of the companies may have limited value as they may not reflect the proper valuation of a company's security by the investors due the speculation involved. This also means the timing of the release of information may not fully reflected due to internal interference by investors who have an upper in accessing the information beforehand.

The findings reveal that announcement of the rights issues have a positive effect on the equity returns at the NSE. The largest effect is felt around and during the announcement. Companies listed in the NSE should be very cautious and aware and ensure that they do not create any confusion or tension by announcing their dividends immediately they announce their rights issue but rather they should wait for some time so that they can see the behavior of the shares. The findings support Bashir (2013) who denoted that there exists a positive reaction of the abnormal positive returns on the rights issue date but this gain in stakeholders wealth was statistically significant as days progressed. The consistency of this study is similar to other studies done internationally that is Brown and Finn (1977) for Australia Korea and Tsangarakis (1996) which affirmed increase in abnormal returns towards the rights issue announcement date In conclusion the interpretation of the findings affirms the need for improvement in the existing currently policies, transparency and protection of the investor in addition to the reenactment of fully disclosure of information. Both regulators and policymakers will need to work as a team in order to establish an environment where prices of the security and returns earned fully disclose the true market value.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The basic purpose of this chapter is to give the summary of the findings, conclusions and recommendations of the study. This was based on the research findings that is presented and discussed in the previous chapters. The study established several findings which make a direct contribution to knowledge and policy formulation. Recommendations both for further research as well as policy and practice have been made.

5.2 Summary of Findings

The study reveals that 20 days before rights issue announcement, the T- statistics was negative, which is an indication that the market share prices were insensitive to rights issue announcement. However, on approaching the 8thdate before rights issue announcement, there was an increase in the t-value, which had actually become positive, and on t₋₅ days, the market was found to react sensitively to the rights issue announcement; an indication that there were some speculation by investors. At t=0, it was found that the share prices at the bourse were very sensitive to rights issue announcement as shown by a t-stat value of 2.838. This continued up to t₊₂, an indication that a few day prior, during, and a few days succeeding the rights issue announcement. This is a clear indication that equity returns are sensitive to right issues announcement.

It was found that the period around the rights issue announcement, T – value was close to 2.356, which was an indication that the market share prices were sensitive to the announcement. Close to the announcement date (the period immediately preceding announcement), the market was very sensitive to the information on the rights announcement which could be attributed to investor expectations and speculation.

There were positive abnormal returns between t_{2} to t_{1} with values greater than 1; 3.596, 2.527, 8.969 and 3.787 respectively. The period between t_{+2} to t_{+12} had average abnormal return of less than 1 which means that no investor benefitted from above normal returns pointing at market adjusting to the rights issue. This implies that the market do not react fast to rights issues which could point to efficiency, but not perfectly efficient. However, period between t_{-20} to t_{+1} had above normal returns meaning that the investors enjoyed above normal returns. This could point at insider trading just before the rights issues announcement.

To track abnormal returns over a number of trading days, cumulative abnormal return (CAR) was computed for the entire event period. The mean CAR was found to be positive in the period after right issues announcement; an indication that the equity returns reacted positively towards the rights issues in the period before right issues the mean CAR was found to have negative values, an indication that the market was not sensitive to rights issues.

On the effect of rights issue on company's share performance before and after rights issue, 9 companies were analyzed on the company doing rights issue on the event period of 20 days before and 20 days after and t-test was conducted on all companies. The null hypothesis was rejected. The computed P-value of all companies was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights and 100% of the results indicated a positive significance level. It was therefore concluded that there is an effect of rights issue announcement on equity returns of companies listed in the NSE.

5.3 Conclusion

The study illustrates that a growing number of companies are embracing the rights issue as a means of raising capital for expansionary activities. The study also affirmed the signaling theory that states which indicates that new information will illicit reaction from the capital market, precisely when the current stakeholders receive announcement from management on additional equity offering.

Event study methodology was applied in this study and the findings were that on the announcement day they were significant strong market reactions. Event day 0 illustrates that the information relayed on the rights issue announcement is already captured .This is evident on Appendix III in which AAR was at 1.793 on Day 0 that is k_{-20} .It is also observed that for the next 22 consecutive days that is from k_{-20} to k_1 AAR is positive, clearly indicating that positive AAR was earned around the event day.

The study further concludes investors are beckoned to information, indicating an optimistic future by the announcement of the rights issue. This results to the realization of targeted projects that generate positive net present values. This in turn motivates those who hold the shares to sell them and those willing to buy to purchase the shares, creating demand in the market and resulting to the rise in the value of the shares. The study has also played a role in reducing the inconclusiveness significantly on past empirical studies that focused on the effect of rights issue announcement on equity returns.

The study also noted majority of the companies that announced the rights issue at the NSE were Banks, precisely five out of the nine companies observed. The five companies were NIC, Standard Chartered, CFC, DTB and HFC. The Banks opted the announcement of the rights issue as a way to raise funds for upcoming projects and run the daily day to day operations. Two Banks that is NIC and DTB have even opted for the announcements and issuance of the rights issue twice within the given period of study.

The study concludes that the equity returns for companies listed in the NSE are very sensitive to the rights issues. The study further concludes that there is an effect of rights issue announcement on equity returns of companies listed in the NSE. Therefore the Kenyan market positively reacts to the rights issue announcements.

5.4 Recommendations for Policy

The study recommends that companies conduct better and critical analysis before announcement and issuing of the rights to ensure they attract more investors. They should also make sure that the decisions they make on the rights issue announcements are on behalf of their clients. Companies listed in the NSE should also ensure they closely monitor and evaluate the performance of their companies and follow policies put in place by the NSE so as to make rational decisions on behalf of their clients.

The study further recommends that the top management of the companies listed in the NSE should use the rights issue announcement to manipulate the prices of their shares and so that they can check the value of their place in the market. The study further recommends that both individual as well as institutional investors operating on the NSE should make rational and

informed decisions based on the rights issue announcements of the listed firms. This will help them to enhance their capital gains.

The study also highly recommends that a policy that puts a cap on the minimum and maximum share price during the rights issue announcement should be established; as this will go a long way in protecting the interest of the Investor from price manipulation .Investment banks will need to institute the reaction of stock price and equity returns in response to the announcement of the rights issue so as to regulate the rights issue discount price.

The study finally recommends that in order for companies issuing rights to increase their

market capitalization, better analysis will be required for future announcements of right issues especially if the lending banks continue with the current trend of limiting the advance they offer to companies. There is also uncertainty of continuity of support from institutional investors form companies that have made no effort to strengthen their balance sheets to date.

5.5 Limitations to the Study

The study exclusively relied on the use of secondary data on share prices; dates on rights issue announcement and the index of the market. Some of the data could not be obtained especially on share prices. This is because some of the companies had issued private placements as options to rights issue. The study depended on secondary data which relates to the past. This is not very relevant in future decision making of financial management as the data relates to the past. This therefore limits the application of the findings to other future scenarios.

The study encountered challenges in recognizing the precise rights issue announcement date. It also was also observed that the date in which CMA approved commencement of a planned

rights was not included in the study. The implication was the date in which the rights issue was announced may solely not have a vast implication on the equity returns, this is because leaked information on planned rights issue announcements may find its way to the market beforehand resulting to volatility in stock prices.

The study did not take into consideration companies that had numerous key announcements at the same so as to avoid the effects of other announcements other than rights issue announcements on equity returns. There was also limited time to conduct the study because the researcher wanted to do an extensive research. However, the researcher had to work with the time available since the study was an academic study they could not conduct a more detailed research.

5.6 Recommendations for Further Study

This study sought to establish the effects of right issue announcement on equity returns of firms listed at the Nairobi Securities Exchange, Kenya attempting to bridge the gap in knowledge that existed. Although the study attained these, it mainly focused on equity returns. There is need to conduct a similar study in areas such as stock returns, postelection violence, shares split and bonus issue in an attempt to compare the findings and close on inconsistencies of the findings.

A longer event period is recommended for future study as it will give better understanding on the percentage of equity return that is attributed to the rights issue announcement .The study only covered a period of fourty days for each sampled security that consisted of nine companies trading in the NSE that met the criteria. There is also need to conduct a study on the reaction of share prices at the NSE immediately before and immediately after the rights issue. The study recommends that future studies should be conducted on a global scale with the focus of international security exchange markets like Johannesburg Security Exchange as this will give a wider perspective of the impact and conclusion. A comparison from other international trading markets was not considered or compared to the securities considered in the NSE from this study In addition the impact of financial strength and investor sentiment is firmly due to the international approach.

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APPENDICES

Appendix I: Companies that Issued Rights between January 1, 2012 and December 2016

Company	Shares on	Date of	Offer	Sum Raised	Subscription
	Issue	Issue	Price		level
KQ	1,477,169,549	2012	14.00	14,487,949,714.00	70.1%
DTB	24,455,566	2012	74.00	3,369,522,734	186.2%
NIC	98,724,391	2012	21.00	7,007,457,273.00	338.0%
CFC Stanbic	121,637,427	2012	33.00	4,495,719,302.00	112.0%
SCB	22,080,000	2012	145.00	8,272,934,400.00	258.0%

Diamond Trust					
Bank	22,010,009	2014	165.00	3,631,651,485.00	440.3%
NIC Bank	42,663,040	2014	49.25	1,904,030,511.50	221,0%
Uchumi					
supermarket	99,500,000	2014	9.00	579,116,043.00	183.6%
HFCK	116,666,667	2015	30.00	9,011,836,920.00	257.0%
LONGHORN	126,190,476	April 2016	4.20	533,000,000.00	101%
KenGen	4,396,722,912	May 2016	6.55	28,798,535,073.60	92.01%
TOTAL	8,567,451,534			130,717,803,591.10	

Source: NSE

Appendix II: T–Stat for 40 Days Surrounding the Event Window (For the 9

				95% Confidence Interval of the difference	
DAYS	t	Sig.	Mean difference	Lower	Upper
-20	518	.353	04772	0275	.0003
-19	368	.221	03941	0079	.0245
-18	904	.147	00928	0035	.0041
-17	125	.049	00072	0111	.0007
-16	437	.040	02009	0089	.0037
-15	651	.027	01016	0188	0015
-14	144	.009	00086	0146	.0129
-13	333	.048	00218	0173	.0129
-12	876	.047	00269	0098	.0044
-11	652	.033	00251	0114	.0064
-10	026	.010	00010	0086	.0084
-9	958	.036	00237	0081	.0033
-8	1.283	.025	00496	0139	.0040
-7	1.422	.025	00343	0099	.0030
-6	1.451	.024	00451	0144	.0054
-5	1.919	.011	00626	0138	.0013
-4	1.989	.022	00498	0108	.0008
-3	1.518	.017	00657	0166	.0034
-2	2.816	.034	00470	0214	.0120
-1	2.935	.040	00305	0140	.0079
0	2.838	.023	00295	0215	.0156
1	2.367	.005	00305	0162	.0101
2	2.533	.029	00201	0150	.0109
3	1.688	.021	00492	0137	.0039
4	1.341	.042	00142	0110	.0082
5	1.222	.031	.00117	0087	.0111
6	1.120	.006	00120	0121	.0097
7	1.361	.009	00158	0131	.0099
8	1.506	.202	00665	0177	.0044
9	1.972	.379	00665	0259	.0610
10	1.385	.211	.01756	0630	.0163
11	992	.056	02334	0189	.0003
12	1.629	.143	00929	0197	.0019
13	1.897	.397	00870	0210	.0037
14	-1.518	.231	00368	0131	.0058

Companies under study)

15	.926	.621	00615	0171	.0048
16	.797	.457	.00244	0085	.0134
17	.317	.291	00372	0276	.0153
18	.223	.558	00375	0089	.0037
19	418	.470	00357	0074	.0018
20	077	.638	00583	0124	.0076

Research Findings

k-Days	AAR	Т	Sig. (2-tailed)
-20	1.793	.361	.733
-19	1.465	523	.623
-18	3.386	2.191	.080
-17	1.285	1.210	.280
-16	0.092	.735	.495
-15	0.745	.261	.805
-14	0.774	.565	.596
-13	0.266	1.066	.335
-12	0.686	4.912	.004
-11	0.607	2.378	.063
-10	0.597	2.938	.032
-9	0.705	3.022	.029
-8	0.095	1.120	.314
-7	0.317	2.515	.053
-6	0.326	.059	.955
-5	0.627	.262	.804
-4	0.814	1.926	.112
-3	0.864	1.390	.223
-2	3.596	2.629	.047
-1	2.527	1.967	.106
0	8.969	1.834	.126
1	3.787	-1.841	.125
2	-2.303	-2.758	.040
3	-1.853	-1.660	.158
4	-0.390	-1.346	.236
5	-2.005	.656	.541
6	-0.801	-1.318	.245
7	-1.316	.365	.730
8	-1.089	-1.637	.163
9	-0.705	-1.380	.226
10	-0.799	131	.901
11	-1.424	.993	.366
12	-1.359	.171	.871
13	1.691	.974	.375
14	-0.087	869	.424
15	-0.755	-1.404	.219
16	0.303	104	.921
17	-1.194	-1.196	.285
18	-0.055	537	.614
19	0.866	.756	.483
20	0.561	1.020	.355

Appendix III: Average Abnormal Returns (For the 9 Companies under study)

Research Findings