THE RELATIONSHIP BETWEEN EARNINGS AND SHARE PRICES OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This project proposal is my original work and to the best of my knowledge has not been submitted for the award of a degree in any other university.

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DEDICATION

I dedicate this project to my parents for bringing me up the way they did, for their love,

guidance and support. May God bless them and give them long lives to enjoy my success.

ABSTRACT

The study was undertaken to examine the empirical relationship between earnings and equity share prices of companies listed at the Nairobi Securities Exchange (NSE). A sample of 42 companies listed continuously from 2007 to 2012 at the Nairobi Securities Exchange. Companies from all the segments of the market were considered. Multiple linear regression analysis was used to establish the relationship. Share price was the dependent variable while earnings per share (EPS) was the explanatory variable. Dividend per share (DPS), price/earnings (P/E) ratio, payout ratio (POR) and price to book value ratio (PBV) were used as control variables. The findings showed that there was a positive significant relationship between earnings and share prices of firms quoted at the Nairobi Securities Exchange (NSE). It was also found that there were other variables significantly correlated with share price. These included DPS and PBV which were used as control variables in the study. DPS was found to have a stronger, positive and significant relationship with share price than EPS had. The other variables used, P/E and POR, were found to have no significant relationship with share price.

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ABBREVIATIONS

ANOVA   Analysis of Variance

CMA   Capital Markets Authority

DPS   Dividends per Share

EMH   Efficient Market Hypothesis

EPS   Earnings per Share

GDP   Gross Domestic Product

NASI   Nairobi Stock Exchange All Share Index

NSE   Nairobi Securities Exchange

P/E   Price to Earnings ratio

SPSS   Statistical Package for Social Sciences

PBV   Price to book value

POR   Payout ratio

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A firm's earnings is a measure of the firm's profit or loss from business activities and events during a period. It represents a measure of the change in the value of the firm to common equity shareholders during a period (Nichols and Wahlen, 2004). Share price is the price of a single share of a number of saleable stocks of a company. The market price of the share is mainly determined by the forces of demand and supply of a particular security in the market (Zakir and Khanna, 1982).

The efficient market hypothesis (EMH) (Fama, 1970) asserts that financial markets are efficient and that share prices reflect all the relevant information available to the market. The market would therefore react quickly and completely to new earnings information available. The signaling hypothesis states that there is information asymmetry between investors and firm managers. The investors use information released by the company, such as earnings information, as a signal of the financial health and future prospects of the company (Al-Malkawi, 2007). Basu (1977) in the earnings multiplier model asserts that earnings is the most important factor that determines the real value of a company.

NSE is Africa's largest stock exchange in terms of trading volumes and fifth in terms of market capitalization as a percentage of GDP. Nairobi Securities Exchange (NSE) is the principal securities exchange market in Kenya. Most studies are therefore done on this market. Several studies done in this market have shown price volatility with different factors such as unit trust returns (Lusinde, 2012), general elections (Kinyeki, 2011) and

inflation (Murungi, 2012). Price volatility has been found to be negatively correlated with investment in developing countries (Marion and Aizenman, 1999).

The knowledge of effective factors of the stock price is very important while deciding to invest in stock exchange. It is crucial to be sure of the reasonable share price on the determined date and also to be able to predict the future changes in stock price. Since some parts of the returns out of investment in shares comes from changes in the stock exchange, increasing tendency is observed towards stock price prediction in the capital market (Zarezadeh et al., 2004). Collins (1957) and Gordon (1959) identified earnings as one of the factors influencing share prices. Beaver (1968) published his seminal paper on the information content of earnings announcements, establishing that both trading volume and return volatility increase at the time of earnings announcements.

1.1.1 Earnings

A firm's earnings represents a measure of the change in the value of the firm to common equity shareholders during a period (Nichols and Wahlen, 2004). Earnings is given by revenues minus cost of sales, operating expenses and taxes over a given period. In this study earnings will be evaluated as annual earnings per share for purposes of comparability.

Basu (1977) in the earnings multiplier model (P/E) argued that earnings is the most important factor that determines the financial health and real value of a company. Investors make decisions depending on public information like earnings which are taken as indicators of a company's financial health and future prospects and thus determining

the share price (Al-Malkawi, 2007). Earnings are used as indicators of a firm's profitability and efficiency of management.

1.1.2 Share Price

A share price is the price of a single share of a number of saleable stocks of a company. The price of a share at a particular moment represents the balance struck between the buyers and sellers. The price reflects the collective wisdom and knowledge of the market (Sharma, 2011).

Changes in price of a stock determine the return on investment on the stock. The share price is one the most important factors which affect investment decisions of investors. It is mainly determined by the forces of demand and supply of a particular security in the market (Zakir and Khanna, 1982). Daily share prices can be obtained from the stock exchange market.

1.1.3 Relationship Between Earnings and Share Price

It is suggested from empirical studies that earnings per share is one of the strongest factors affecting the share price (Sharma, 2011). The pioneers of the studies on determinants of share price were Collins (1957) and Gordon (1959). Both of them in their independent studies identified earnings as one of the factors influencing share prices.

Beaver (1998) postulated that current period earnings provide information to predict future periods' earnings. The future periods' earnings provide information to develop expectations about dividends in future periods. This in turn provides information to determine share value and hence the share price.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the principal securities exchange of Kenya. It was constituted in 1954 as an overseas stock exchange while Kenya was still a British colony with permission of the London Stock Exchange. Two indices are popularly used to measure performance. The NSE 20-Share Index has been in use since 1964 and measures the performance of 20 blue-chip companies with strong fundamentals and which have consistently returned positive financial results. In 2008, the Nairobi Stock Exchange All Share Index (NASI) was introduced as an alternative index. Currently 61 firms are listed on the NSE (www.nse.co.ke, June, 2013).

Kenya is considered a prominent emerging market in Africa. NSE is Africa's largest stock exchange in terms of trading volumes and fifth in terms of market capitalization as a percentage of GDP. The status of an economy can almost always be predicted and understood as a result of the performance of its stock market since the capital market plays a great role in the process of economic development (www.cma.com). There is need therefore to address matters to do with the capital market in Kenya. Since NSE is the only stock market in the country most of the research work that has been carried out in the country has been based on this market. So far no study involving the relationship between earnings and share price has been carried out on the NSE. There is therefore need to study the relationship between earnings and share price based on this market.

The NSE is regulated by the Capital Market Authority (CMA) through a system of rules and regulations together with relevant acts of parliament (www.nse.co.ke, June, 2013). It is the only stock market in Kenya and therefore most of the research work that has been done in the

country has been based on this market. The NSE was chosen as the source of data for this study because it provides real time and historical listed debt securities and equity securities data including: instrument code, bid price, ask price, bid quantity, ask quantity, trade quantity, high price, low price, close price, trade price, price change, total trade, total turnover and total volume (www.nse.co.ke, June, 2013).

1.2 Research Problem

The signaling theory postulates that there is information asymmetry between managers and investors. Management use earnings as a tool to convey private information to shareholders (Al-Malkawi, 2007). Earnings announcements are one of the important signaling devices used by managers to transmit information to the public about the state of health of the firm and the firm's future prospects (Lonie et. al., 1996). Beaver (1998) postulated three theoretical links between earnings and share prices. He postulated that current period earnings provide information to predict future periods' earnings, which provide information to develop expectations about dividends in future periods. This in turn provides information to determine share value. New earnings information that triggers a change in investors' expectations for future dividends should correspond with a change in the market value of the firm's stocks.

The Nairobi Securities Exchange (NSE) is the principal securities exchange of Kenya. Kenya is considered a prominent emerging market in Africa. NSE is Africa's largest stock exchange in terms of trading volumes and fifth in terms of market capitalization as a percentage of GDP. The status of an economy can almost always be predicted and understood as a result of the performance of its stock market since the capital market

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plays a great role in the process of economic development (www.cma.com). The share price is subject to extreme fluctuations depending on several factors one of which is earnings. Knowledge of the impact of earnings on share prices is highly appreciable as it would help in determining price volatility and in prediction of price movement to enable firms to enhance their market value and investors to maximize their wealth (Zarezadeh et al., 2011). Different markets respond differently to changes in the same factor such as earnings. Foreign investors have to know the dynamics of the market before making investment decisions (Nirmala et. al. 2011).

Gordon (1959) and Collins (1957) showed that there is a positive relationship between share price and both earnings and dividends. Zarezadeh et al. (2011) showed in their study that there is a positive and significant relationship between Earnings per Share (EPS) and stock price of the company. Muthui (2003) showed that there was no statistically significant difference in returns of shares with low P/E and those of high P/E. In all the local studies done none of them investigated the relationship between earnings and stock price. It was therefore important to determine the relationship between earnings and share price at the Nairobi Securities Exchange (NSE). The research question was; what is the relationship between the previous period's earnings and the current share prices of companies listed at the Nairobi Securities Exchange (NSE)?

1.3 Research Objective
The objective of this study was to determine the relationship between earnings and share prices of firms listed at the Nairobi Securities Exchange (NSE).

1.4 Value of Study

Academic researchers may use the findings of this study to stimulate further research in this area. It will therefore form a basis of good background for further research.

The study is important to managers to enable them to know the effect of some of their decisions that affect a company's earnings. This will enable them to make such decisions as to avoid unfavourable price reactions which negatively affect the value of the firm. Using the findings from this study firms will also be able to make decisions so as to maximize the market value of their shares.

Fund managers are charged with the responsibility of identifying viable projects on behalf of the investors. Findings from the study will help them gauge the performance of the stock market and hence assist in making buying and selling decisions. The study is very important to investors to enable them to anticipate price movements and therefore make right investment decisions to maximize their wealth.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter describes the literature on theories and models about earnings and other determinants of share price. The section also examines the empirical findings both internationally and locally and gives the measures of key variables used in the study.

2.2 Theoretical Framework

This section contains theories and models about earnings and share prices. They show the relationship between earnings and share prices. They include: efficient market hypothesis, the three links theory relating earnings to stock prices, signaling hypothesis, earnings multiplier model and factors affecting share prices.

2.2.1 Efficient Market Hypothesis

The definition of efficient market says, that share prices fully reflect all accessible information (Fama, 1970). Market efficiency is a very important assumption because if the market is efficient, the prices fully reflect all essential, accessible information. In such case, announcement of new, essential information will be immediately shown in share prices. Then, based on share price behaviour, it is possible to check how important the event is.

Market efficiency, refers to the scope of the information that prices reflect and the degree to which capital market prices react quickly and completely to new value-relevant information, such as unexpected changes in earnings. Market efficiency does not assume that the capital markets are omniscient. Nor does market efficiency assume prices are prescient. Market efficiency is not an absolute-it is not that prices either are or are not

efficient. Instead, market efficiency is a matter of degree, which describes how much information prices reflect and how quickly prices react and reach new equilibrium levels. A highly efficient market with respect to accounting earnings numbers would react quickly and completely when new earnings-related information becomes available (Nichols and Wahlen, 2004).

Fama (1991) proposes that the efficiency of the market can be present in three forms: weak form, semi-strong form and strong form. Weak form efficiency occurs when prices reflect only the information on historical share prices. Semi-strong form efficiency occurs when prices reflect all publicly accessible information such as dividend payment announcements and earnings forecasts. Strong form efficiency occurs when the market prices are set under the influence of historical and public information but also under the influence of private information and confidential one, which is accessed by some group of investors.

If the efficiency of market is present in the weak form, the analysis of historical data will not enable an investor to receive abnormal returns. If the efficiency of market is present in the semi-strong form, the analysis of historical data, as well as generally accessible information will not help the investor to get extraordinary profits. And finally, if the efficiency of market is present in the strong form, the knowledge about confidential data will not provide abnormal returns (Fama, 1991).

2.2.2 The Three Links Theory

The three links theory introduced by Beaver (1998) explains the relationship between earnings and share price. The theory linking the firm's earnings numbers to changes in

the firm's market value depends on three assumptions about the information contained in earnings and share prices. First, the theory assumes that earnings provides information to equity shareholders about current and expected future profitability. Second, the theory assumes that current and expected future profitability provides shareholders with information about the firm's current and expected future dividends. Third, the theory assumes share price equals the present value of expected future dividends to the shareholder. These links imply that new accounting earnings information that triggers a change in investors' expectations for future dividends should correspond with a change in the market value of the firm (Beaver, 1998).

Link 1 in the three-links theory assumes that a current period earnings number provides two important elements of information useful for developing dividends expectations: information about current period wealth creation and information about future earnings. First, firms measure earnings using accrual accounting principles, which measure the effects of transactions and events on shareholders' equity. Therefore, the current period earnings number summarizes important information about the wealth created by the firm for equity shareholders during the period. Second, current period earnings and related financial statement data provide useful information to predict future earnings (Nichols and Wahlen, 2004).

Firms' income statements commonly distinguish between operating income, which captures the results of the firm's ongoing operations that will likely recur in the future, and special items which are not part of ongoing operations and therefore are less likely to affect the firm's performance in future periods. Firms depend on financial reporting to

convey credible information about their ability to generate future wealth for equity shareholders and other stakeholders. More generally, an important objective of financial accounting is to provide information useful for assessing the amounts, timing, and uncertainty of future dividends and cash flows (Nichols and Wahlen, 2004).

Figure 2: The Three Links Relating Earnings to Stock Prices

Link 1

Current period earnings

Current period earnings provide information that equity shareholders can use to form expectations for future earnings.

Expected Future Earnings

Current and expected future profitability determines the firm's expected future dividend paying capacity.

Test: How do earnings relate to share prices?

Link 2

Link 3

Current Share Price

Share prices reflect the present value of all expected future dividends.

Expected Future Dividends

(Nichols and Wahlen, 2004).

Link 2 in the three-links framework assumes that current and future earnings represent wealth created by the firm that will ultimately be distributed to equity shareholders through dividends. Thus, current earnings and forecasts of future earnings indicate future dividend-paying ability, which shareholders can use to develop expectations of future dividends. Shares of stock entitle the shareholder to share in any dividend distributions (Nichols and Wahlen, 2004).

Link 3 therefore represents the classical approach to equity valuation, which views share value as the present value of the future dividends the shareholder expects to receive over the remaining life of the firm. Current period earnings numbers (and related financial reports) provide shareholders with information to develop expectations for those future earnings, which aid in developing expectations of future dividends, which ultimately form the basis for share value. These three links from current earnings to future earnings to future dividends to share value provide an intuitive framework for understanding the relation between earnings and share value (Nichols and Wahlen, 2004).

2.2.3 Signaling Hypothesis

Management tends to have more precise and timely information about the firm than outside investors. There is therefore information asymmetry between managers and investors. To bridge this information gap, management use earnings and dividends as a tool to convey private information to shareholders (Al-Malkawi, 2007).

Earnings announcements are one of the important signaling devices used by managers to transmit information to shareholders and investors about the firm's financial health and future prospects (Lonie et. al., 1996). Earnings announcements are one of the critical components of testing market efficiency. Thus, earnings provide a yardstick that can be utilised by the market to assess the wealth and profitability of a firm.

2.2.4 Earnings Multiplier Model

Basu (1977) in the earnings multiplier model (P/E) argued that earnings is the most important factor that determines the financial health and real value of a company and which in case of rational investors it should determine the share price. Earnings multiplier

(P/E) model pioneered by Basu (1977) is a common measure used to indicate market assessment of a company's earnings relative to their current stock price. The rationale underlying the basic concept is that value of any investment is the present value of future earnings.

Many investors prefer capital gain and not dividends (Al-Malkawi, 2007) therefore focusing solely on dividend is less desirable and the earnings multiplier or P/E model remains a popular approach to valuation. Since dividend is paid out of earnings, investors must estimate the growth in earnings before they can estimate the growth in dividends or dividends themselves. To the rational investors, the earnings multiplier reflects their expectation about the growth potential of a stock and the risk involved.

2.3. Factors Affecting Share Price

The market price of the share is mainly determined by the forces of demand and supply of a particular security in the market (Zakir and Khanna, 1982). The share price is subject to extreme fluctuations depending on several factors. Knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms to enhance their market value. The factors that influence share prices could either be internal factors, such as earnings, dividend and book value or external factors such as interest rate, government regulations and foreign exchange rate (Nirmala et. al. 2011).

Market price of the share depends upon many factors, such as earnings per share, dividend per share, dividend payout ratio, size of the firm and dividend yield (Sharma, 2011). Gordon (1959) asserted that share price is determined by earnings and dividends.

Collins (1957) also suggested that dividend, net profit, operating earnings and book value are factors influencing share prices.

2.4 Empirical Research

Gordon (1959) concentrated his study on modeling share prices. He critically evaluated three possible hypotheses with regard to the investment decision. These hypotheses which the investor considers when acquiring a share are: the earnings, the dividends or both. He studied the relationship among the share prices, dividends and earnings by regressing the share prices against dividends and earnings and used the elementary theory to explain the variation in stock prices with dividends and earnings. Gordon's findings support that both dividends and earnings have power in explaining the movement in the share prices. The dividends and income capture a substantial fraction ($R^2 > 0.85$ in all cases) of the variation in the dependent variable, the share prices.

Beaver (1968) examined the variability of stock returns and trading volume around earnings announcements. He showed that the earnings announcement period is characterized by an increased flow of information compared to a non earnings announcement period. He used return volatility to infer the flow of information. Beaver (1968) also tested for the flow of information by comparing trading volume in the earnings announcement periods to that in the non-announcement periods. Market participants have heterogeneous expectations about a forthcoming earnings announcement. Earnings announcements resolve some of the uncertainty and thus narrow the heterogeneity of beliefs, but in the process contribute to increased trading among the

market participants who might have taken positions based on their pre-earnings announcement period heterogeneous expectations.

Srivastava (1984) did cross- section study of 327 companies in India. After carrying out a correlation analysis using multiple regression model he concluded that earnings have no significant effect on market prices of securities in India. Sharma and Singh (2006) used data from 160 Indian firms between 2001 and 2005 and found that earnings per share, price-earnings ratio, dividend per share, dividend coverage, dividend payout, book value per share, and firm size are the determinants of share prices.

Ball and Brown (1998) correlated the sign of the abnormal stock return in the month of an earnings announcement with the sign of the earnings change over that firm's previous year's earnings. They found a significantly positive correlation. A portion of the earnings increase experienced by the firms classified as ''good news firms'' was a favorable surprise to the market, which led to increased security prices. Ball and Brown (1998) provide evidence using two earnings expectation models: a simple random walk model and a market model in earnings.

Ndete (1999) conducted a study at the NSE to find out whether the P/E ratio is an indicator of investment of ordinary shares. He also sought to show whether there was a relationship between P/E ratio and three other variables; growth in earnings, variation in earnings (risk) and dividend payout. He used data from 30 companies quoted at the NSE and used multiple regression analysis to establish the nature and type of relationship, if any, between the variables. The results showed that there was a weak relationship

between the P/E ratio and earnings growth, variation in earnings and dividend payout ratios.

Muthui (2003) investigated whether there was any significant difference in returns between low P/E ratio stocks and high P/E stocks for companies quoted at the NSE. He computed P/E of companies that constituted the NSE 20 share index and divided them into three groups; high, medium and low. He concluded that there was no statistically significant difference in returns of shares with low P/E and those of high P/E.

Al-Deehani (2005) examined the determinants of share price for companies listed on the Kuwait stock exchange. The empirical findings showed that the variables; previous earnings per share, previous cash dividends per share, previous cash dividends per share, previous return on equity, previous price to book value ratio and previous cash flow per share are all highly correlated with the share price.

Somoye et al. (2009) examined the factors influencing equity prices in the Nigerian stock market for the period 2005-2007. They employed simple linear regression model to examine the impact of earning per share, GDP, interest rate, dividend per share and oil price on equity price. The empirical results showed the variable dividend per share, earning per share and GDP exerts a positive correlation to stock prices but are not significant determinants of share price. No local studies have been conducted to determine the relationship between earnings and share price.

Zaredadeh et. al. (2011) examined the relationship between DPS, EPS and P/E as independent variables and stock price of Iran Khordo Company using a multiple

regression model. The empirical results of this research indicate that there is a positive and significant relationship between Earning per Share (EPS) and stock price of the company. However, there is a negative and significant relationship between Dividends per Share (DPS) and Price to Earnings ratio (P/E) of the company.

Ndinyo (2011) studied the effect of P/E ratio on the performance of common stocks at the NSE covering the period 2006 to 2010. It involved testing whether high/low P/E ratio results in high/low value of common stocks. The P/E results were compared with the return of respective stocks and comparisons made between the share returns of both low and high P/E ratio stocks with those of average stocks. One way ANOVA analysis was used to test the relationships. Results showed that high P/E portfolios seem to have earned higher rates of return as compared to the average stock. Low P/E portfolios earned less return than the average stock.

2.5 Summary of Literature Review

The empirical studies that have been done on the relationship between earnings and share price on different capital markets have given mixed results. Gordon (1959) showed that earnings have power in explaining the movement in share prices. Ball and Brown (1968) and Beaver (1968) provide compelling evidence that there is information content in accounting earnings and that earnings are positively correlated with share price.

Sharma and Singh (2006) and Somoye et al. (2009) concluded that earnings have no significant effect on market prices of securities. No local studies have been carried out on the relationship between earnings and share price. There is therefore need to carry out a study on the relationship between earnings and share price in the Kenyan capital market.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains information on the study including the research design, the target population of the study, data collection method and analysis techniques, sampling method applied in the research and measures of key variables.

3.2 Research Design

This research involves the use of cross-sectional correlation study. Correlation study involves collecting and analyzing data in order to determine whether a relationship exists between two or more quantifiable variables and the strength of the relationship. This design permits a researcher to analyze the inter-relationship among a large number of variables in a single a study. Additionally, a correlation study also allows a researcher to analyze how several variables either singly or in combination might affect a particular phenomenon being studied (Cooper and Schindler, 2003).

3.3 Target Population of Study

The population of this study was composed of all companies listed at the Nairobi Securities Exchange. The population of all the listed companies as at June 20, 2013, stood at 61 (www.nse.co.ke, June, 2013). Quoted companies were used because of easy availability of their information due to the disclosure requirements by the Capital Markets Authority (CMA).

3.4 Sample and Sampling Method

A sample of 42 firms was used in the study since this was the number of firms that satisfied the condition of being listed continuously throughout the period of study. Purposive sampling technique was done to ensure that only those firms continuously listed and active in the entire period between 1st January 2007 and 31st December 2012 were studied. It also ensured that the sample represented all the sectors of the economy.

3.5 Data Collection Method

The study utilized secondary data. Data including share prices of stocks was collected from the Nairobi Securities Exchange (NSE). The share prices of stocks were obtained from NSE website and licensed stock brokers. Data from financial statements including income statements and statements of financial position from Capital Markets Authority (CMA) and company websites was used. The financial statements were used to obtain the EPS or for calculation of the EPS from the firms' number of shares outstanding from the statement of financial position and the firms' earnings obtained from the income statements.

3.6 Data Analysis

The data analysis involved correlation analysis using a multiple linear regression model. Data analysis was done using computer software, SPSS, to run the regression model. SPSS was preferred because it has the ability to cover a wide range of the most common statistical and graphical analysis and is very systematic. The regression model used is:

$$P_t = a + bEPS_{t-1} + cDPS_{t-1} + dPE_{t-1} + ePOR_{t-1} + fPBV_{t-1} + \varepsilon$$

Where: P_t = Share price for the period t.

EPS_{t-1} = Earnings per share for period t-1.

DPS_{t-1} = Dividends per share for period t-1

PE_{t-1} = Price to earnings ratio for period t-1

POR_{t-1} = Payout ratio for period t-1

PBV_{t-1} = Price to book value for period t-1

a = regression constant.

ε = random error term which represents the combined effect of omitted variables.

b, c, d, e and f are regression coefficients.

Dividend per share (DPS), price to earnings ratio, payout ratio and price to book value ratio were used as control variables since they have been shown to be factors affecting share price (Nirmala et. al. 2011).

The direction and strength of the relationship was determined by the multiple correlation coefficient (r). The coefficient of multiple determination (r^2) was used to determine the explanatory power of the regression model. It gives the proportion of total variation of outcomes explained by the model. It is a measure that allows us to determine how certain one can be in making predictions from a certain model. Analysis of variance (ANOVA) table from SPSS regression output was used to determine the significance of the model using the F-statistic at 0.01 significance level. The t statistic was also determined to give the impact of each predictor variable – a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable (Kothari, 1990).

3.7 Measures of Key Variables

This section gives the key variables that were used in this study and shows how the variables were determined or calculated.

3.7.1 Earnings per Share

For the purpose of statistical analysis the market price of shares was taken as the dependent variable while Earnings Per Share as the independent variable. To explain share price in the year 't', data used to calculate the values of explanatory variables related to the year (t-1), that is preceding the year 't' (t refers to the year the share price of which is being explained). This was based on the assumption that earnings made by a company in a given year as well as other variables are apt to affect the market price of its share in the following year when the data is publicly made available.

The earnings per share is given by:

$$\text{Earnings per share (EPS)} = \frac{\text{Total earnings for the year}}{\text{Number of equity shares outstanding}}$$

3.7.2 Share Price

The price of a share at a particular moment represents the balance struck between the buyers and sellers (Zakir and Khanna, 1982). Daily price fluctuations arise because of changes in the buying and selling pressure. In the present study, arithmetic means of high and low market prices of shares during the financial year of the firm were taken, as was done by Sharma (2011). Mathematically it is calculated as:

$$\text{Share price (P)} = \frac{PH + PL}{2}$$

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Where PH is the greatest market price, PL is the lowest market price for the year which relates to the 't' period.

3.7.3 Dividend per Share (DPS)

Dividend is the portion of the profit after taxes which are distributed to the share-holders for their investment and bearing risk in the company. The amount of dividend paid to the share holders depends upon the dividend policy pursued by a company. The dividend rate of a company has a significant influence on the market price of a share (Gordon 1959). The dividend per share was arrived at as follows:

$$\text{Dividend per share (DPS)} = \frac{\text{Total amount of dividend paid to equity shareholders}}{\text{Number of equity shares outstanding}}$$

3.7.4 Price to Earnings (P/E) Ratio

The price earnings ratio expresses the relationship between the market price of a company's share and its earnings per share. The ratio is a conventional measure of stock values because it gives an indication of share prices measured against the earning power of the stock. It is measured as follows:

$$\text{Price to earnings (PE) ratio} = \frac{\text{Market price per share}}{\text{Earnings per share}}$$

3.7.5 Dividend Payout Ratio

Dividend payout ratio shows the percentage share of the net profits after taxes and preference dividend paid out as dividend to equity shareholders. It can be calculated by dividing the total dividend paid to the equity shareholders by the total profits/earnings available for them. Alternatively, it can be found out by divided DPS by EPS. This

predicts direct relation between payout ratio and the price/earnings multiple. Conversely it means that there is a relation between payout ratio and share price changes (Sharma, 2011).

$$\text{Payout ratio} = \frac{\text{Total dividend paid to equity shareholders}}{\text{Total net profit belonging to equity shareholders}} \text{ X } 100$$

$$\text{Payout ratio} = \frac{\text{Dividend per share}}{\text{Earnings per share}} \text{ X } 100$$

3.7.6 Price to Book Value

The price/book value ratio is the ratio of the market value of equity to the book value of equity, that is, the measure of shareholders' equity in the statement of financial position of the company. The market value of the equity in a firm reflects the market's expectation of the firm's earning power and cash flows. The book value of equity is the difference between the book value of assets and the book value of liabilities. Price-book value ratios can be compared across similar firms for signs of under or over valuation. The price to book value ratio can be calculated as follows:

$$\text{Price to Book Value} = \frac{\text{Total market value of equity}}{\text{Book value of equity}}$$

$$\text{Price to Book Value} = \frac{\text{Market price per share}}{\text{Net asset value per share}}$$

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section contains data analysis that was done in the study. It also gives the findings and the discussion of the results. The research aimed at finding out the relationship between earnings and share prices of firms listed at the NSE. Multiple regression analysis was performed using SPSS to establish this relationship. The analysis involved correlation analysis, model test, test for autocorrelation and determining the significance of the model and the predictor variables.

4.3 Regression Analysis

A multiple linear regression analysis was conducted with share price (Pt) as the dependent variable while earnings per share (EPS), dividend per share (DPS), price/earnings ratio (PE), dividend payout ratio (POR) and price to book value ratio (PBV) were independent variables. The hierarchical multiple regression was used to control for dividend per share (DPS), price/earnings ratio (PE), dividend payout ratio (POR) and price to book value ratio (PBV) so as to measure the independent effect of earnings per share (EPS). The enter method in SPSS was used and all the variables were entered and there was no variable removed.

The minimum ratio of valid cases to independent variables for multiple regression is 5 to 1. With 210 valid cases and 5 independent variables, the ratio for this analysis was 42 to 1, which satisfied the minimum requirement. In addition, the ratio of 42 to 1 satisfied the preferred ratio of 15 to 1(Kothari, 1990).

4.3.1 Regression Coefficients

Table 4.3a: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	18.134	5.136		3.531	.001					
	EPS	2.094	.331	.310	6.328	.000	.514	.405	.290	.876	1.141
	DPS	11.100	.969	.570	11.452	.000	.675	.626	.525	.850	1.176
	PE	.136	.064	.113	2.109	.036	.064	.146	.097	.734	1.362
	POR	-.034	.018	-.105	-1.948	.053	.046	-.135	-.089	.723	1.382
	PBV	3.064	1.118	.126	2.740	.007	.196	.188	.126	.988	1.012

a Dependent Variable: Pt

From the unstandardised regression coefficients in table 4.3a above, the following regression equation was obtained:

Pt = 18.134 + 2.094EPS + 11.100DPS + 0.136PE - 0.034POR + 3.064PBV + ε

The unstandardised coefficient associated with EPS (2.094) was positive, indicating a direct relationship in which higher numeric values for EPS were associated with higher numeric values for share price. Controlling for other variables, if EPS increased by 1 unit share price would increase by 2.094 units. All the independent variables had a direct relationship with share price except POR which had an inverse relationship with unstandardised coefficient of -0.034.

EPS had a beta of 0.310 showing that a change of one standard deviation in the predictor variable (EPS) would result in a change of 0.310 standard deviations in the criterion variable (share price). DPS had the greatest influence on the dependent variable as shown by its beta value of 0.570 while POR had the lowest negative influence with a beta value of -0.105. EPS also had high partial and part correlations showing that it had high correlation with share price independent of the other predictors in the model.

4.3.2 Test of Significance of Predictor Variables

The null and alternative hypotheses for EPS were stated as:

H_o: $\beta 1 = 0$ (EPS was not a significant predictor of share price).

H_A: $\beta 1 \neq 0$ (EPS was a significant predictor of share price).

Significance level: $\alpha = 0.01$.

The rejection region: reject the null hypothesis if p-value ≤ 0.01.

Since p-value < 0.01, the null hypothesis was rejected at the 0.01 level of significance. At the $\alpha = 0.01$ level of significance, there existed enough evidence to conclude that the slope associated with the EPS variable was not zero and hence EPS was a significant predictor of share price.

Similarly the significance tests for other predictor variables were done using the following null and alternative hypotheses:

H_o: $\beta_1 = 0$ (The independent variable was not a significant predictor of share price).

H_A: $\beta_1 \neq 0$ (The independent variable was a significant predictor of share price).

Significance level: $\alpha = 0.01$.

The rejection region: reject the null hypothesis if p-value ≤ 0.01.

Given the p-values in table 4.3a the predictor variables EPS, DPS, and PBV were significant at 0.01 level while PE and POR were not significant at 0.01 level. The null hypotheses were rejected that the slopes associated with EPS, DPS, and PBV were equal to zero ($\beta = 0$). It could be concluded that there was a statistically significant relationship between each of the independent variables: EPS, DPS and PBV and the dependent variable (share price) at 0.01 level of significance. The null hypotheses could not be rejected for PE and POR. There was no significant relationship between each of the predictor variables PE and POR and the dependent variable (share price) at 0.01 level.

4.3.3 Test of Significance of Model

Table 4.3b: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.697(a)	.486	.476	57.07191	.486	48.553	4	205	.000
2	.755(b)	.571	.560	52.30789	.084	40.042	1	204	.000

a Predictors: (Constant), PBV, POR, DPS, PE
b Predictors: (Constant), PBV, POR, DPS, PE, EPS

Hierarchical regression model was used in which PBV, POR, DPS and PE were used as control variables. The SPSS regression output gave two model results, model 1 with control variables only and model 2 containing control variables and EPS so as to test the independent effect of EPS in the model. Model 1 of table 4.3b with the control variables PE, DPS, POR and PBV gave multiple regression coefficient of correlation (r) of 0.697 and R^2 of 0.486. Since from table 4.3b above F statistic had p-value < 0.01 there was a

strong positive relationship between share price and the set of the independent variables PE, DPS, POR and PBV which was significant at 0.01 level. The model accounted for 48.6% of the variance in the dependent variable (share price).

Model 2 in table 4.3b on addition of EPS as an independent variable the model had a multiple correlation coefficient of 0.755. Since the p-value< 0.01 there was a strong positive correlation between the dependent variable (share price) and the set of independent variables EPS, DPS, PE, POR and PBV at 0.01 level. The model had adjusted R square of 0.560. This indicates that the model accounted for 56% of the variance in the dependent variable (share price).

For the R square change on addition of the independent variable EPS the null and alternative hypotheses were stated as:

Ho: R^2 change = 0 (there was no significant improvement in the relationship between the set of independent variables and the dependent variable).

H_A: R^2 change ≠ 0 (there was a significant improvement in the relationship between the set of independent variables and the dependent variable).

Significance level: α = 0.01.

The rejection region: reject the null hypothesis if p-value ≤ 0.01.

Since p-value < 0.01, the null hypothesis (R^2 change = 0) was rejected at 0.01 level of significance. The R Square Change statistic for the increase in R^2 associated with the added variable (EPS) was 0.084. Using a proportional reduction in error interpretation for R^2, information provided by the added variable reduced the error in predicting share price by 8.4%. The probability of the F statistic for the change in R^2 associated with the

addition of the predictor variable (EPS) to the regression analysis containing the control variables was significant at 0.01 level. There was significant improvement in the relationship between the set of independent variables and the dependent variable when the predictor (EPS) was added. This shows that there was a significant relationship between earnings and the share price at 0.01 level of significance.

Table 4.3c ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	632593.116	4	158148.279	48.553	.000(a)
	Residual	667726.591	205	3257.203		
	Total	1300319.707	209			
2	Regression	742152.197	5	148430.439	54.249	.000(b)
	Residual	558167.510	204	2736.115		
	Total	1300319.707	209			

a Predictors: (Constant), PBV, POR, DPS, PE

b Predictors: (Constant), PBV, POR, DPS, PE, EPS

c Dependent Variable: Pt

The null and alternative hypotheses were stated as:

Ho: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$ (none of the independent variables were significant predictors of the dependent variable).

H_A: at least one $\beta_i \neq 0$ (at least one of the independent variables was a significant predictor of the dependent variable).

Significance level $\alpha = 0.01$.

Rejection region: reject the null hypothesis if p-value ≤ 0.01.

Since from table 4.3c above F (5, 204) = 54.249, p-value < 0.01, the null hypothesis was rejected. It could be concluded that at least one of the independent variables was a significant predictor of share price. The model was therefore significant at 0.01 level. There was a significant relationship between share price and the set of independent variables: EPS, DPS, PE, POR and PBV.

4.4 Correlation Analysis

Table 4.4: Correlation Matrix

		Pt	EPS	DPS	PE	POR	PBV
Pt	Pearson Correlation	1	.514(**)	.675(**)	.064	.046	.196(**)
	Sig. (2-tailed)	.	.000	.000	.355	.510	.004
	N	210	210	210	210	210	210
EPS	Pearson Correlation	.514(**)	1	.350(**)	.020	.044	.051
	Sig. (2-tailed)	.000	.	.000	.775	.522	.462
	N	210	210	210	210	210	210
DPS	Pearson Correlation	.675(**)	.350(**)	1	-.014	.130	.092
	Sig. (2-tailed)	.000	.000	.	.835	.060	.185
	N	210	210	210	210	210	210
PE	Pearson Correlation	.064	.020	-.014	1	.507(**)	.051
	Sig. (2-tailed)	.355	.775	.835	.	.000	.458
	N	210	210	210	210	210	210
POR	Pearson Correlation	.046	.044	.130	.507(**)	1	.045
	Sig. (2-tailed)	.510	.522	.060	.000	.	.520
	N	210	210	210	210	210	210
PBV	Pearson Correlation	.196(**)	.051	.092	.051	.045	1
	Sig. (2-tailed)	.004	.462	.185	.458	.520	.
	N	210	210	210	210	210	210

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

Bivariate correlation analysis was done on the variables. Table 4.4 shows the bivariate correlations among the variables: share price (Pt), earnings per share (EPS), dividend per share (DPS), price/earnings ratio (PE), dividend payout ratio (POR) and price to book value ratio (PBV). The results showed a positive correlation among all the variables except between dividends per share and P/E ratio that had a correlation coefficient (r) of -0.014 that was not significant at 0.01 level. EPS, DPS and PBV had significant correlation with share price at 0.01 level while the other independent variables: PE and POR had no significant correlation with share price at 0.01 level. DPS and EPS were positively correlated with a correlation coefficient of 0.35 significant at 0.01level. POR and PE also had a positive correlation coefficient of 0.507 significant at 0.01 level.

4.5 Multicollinearity Analysis

Table 4.5 Collinearity Diagnostics

Model	Dimension	Eigen value	Condition Index	Variance Proportions					
				(Constant)	EPS	DPS	PE	POR	PBV
1	1	2.549	1.000	.05	.05	.05	.01	.01	.05
	2	1.426	1.337	.01	.01	.01	.23	.23	.01
	3	.730	1.869	.02	.24	.08	.01	.02	.54
	4	.519	2.217	.00	.23	.17	.46	.43	.01
	5	.429	2.436	.17	.47	.26	.17	.18	.22
	6	.347	2.711	.75	.00	.43	.12	.12	.18

a Dependent Variable: Pt

There was no problem of multicollinearity among the independent variables as indicated by the collinearity diagnostics (table 4.5). The condition indices were very low, within

the preferred value of below 15. Absence of multicollinearity was also indicated by the correlation coefficients (table 4.4) between the variables. Multicollinearity is likely to exist when there is a correlation coefficient (r) above 0.8 between the independent variables (Fox, 1991). The highest correlation was observed between POR and PE with correlation coefficient of 0.507 significant at 0.01 level which was low enough to indicate absence of multicollinearity. The low VIF and high tolerance values (table 4.3a) indicate that there was no multicollinearity among the independent variables. To avoid multicollinearity the VIF values should be less than five and tolerance above 0.2 (Cohen et al., 2003).

4.6 Discussion of Findings

The objective of the study was to find out if there is a relationship between earnings and share prices quoted at the NSE. Empirical results from the study revealed that there is a significant positive relationship between earnings and share prices. The results of a hierarchical multiple regression analysis gave a regression model with multiple correlation coefficient of 0.755 and R square of 0.571 significant at 0.01 level. The R square change of the model on addition of EPS as a predictor variable after controlling for the DPS, PE, POR and PBV was significant at 0.01 level. The t-statistic for the predictor EPS also showed it was significant at 0.01 level.

The efficient market hypothesis (EMH) (Fama, 1970) asserts that financial markets are efficient and that share prices reflect all the relevant information available to the market. The empirical results of the study agree with the hypothesis in that changes in EPS are related with changes in the share prices. The findings also uphold the signaling

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hypothesis which states that there is information asymmetry between investors and firm managers. The investors use information released by the company, such as earnings information, as a signal of the financial health and future prospects of the company (Al-Malkawi, 2007). As a result change in earnings result in change in share prices of firms.

The findings have revealed that DPS has a stronger significant positive correlation with share price than EPS. This shows that investors in the Kenyan market value dividends more than capital gains. This agrees with the bird in hand theory of dividend policy which postulates that investors would rather accept dividends which is more certain than capital gains. Gordon (1959) found that although EPS is a strong predictor of share prices DPS had stronger explanatory power than EPS.

Gordon (1959) asserted that investors invest in shares either for dividends or earnings or for both dividends and earnings. Current period earnings provide information to predict future periods' earnings. The future periods' earnings provide information to develop expectations about dividends in future periods. The future period's dividends in turn provide information to determine share value and hence the share price (Beaver, 1998). This explains the strong positive relationship between EPS and share price.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section contains the summary of the study, conclusion, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of the Study

The study was done to find out if there is a relationship between earnings and share prices of firms listed at the NSE. Empirical results from the study revealed that there is a significant positive relationship between earnings and share prices of firms listed at the NSE. Bivariate correlation analysis was done and it revealed that there was a significant and strong positive relationship between earnings and share price. However there was found to be correlations between EPS and the control variables DPS, PE, POR and PBV which were also correlated with share price.

Hierarchical multiple linear regression was done so as to isolate the individual impact of earnings on share price independent of the other predictor variables. The resulting regression model had a multiple correlation coefficient of 0.755. This showed that there was a strong positive correlation between the dependent variable (share price) and the set of independent variables EPS, DPS, PE, POR and PBV. The model had a coefficient of multiple determination (R^2) of 0.571 and adjusted R square of 0.560 which indicate the proportion of the variance in the criterion variable which was accounted for by the model. This showed that the model accounted for 56% of the variance in the dependent variable (share price).

The R Square Change statistic for the increase in R^2 associated with the added variable (EPS) was 0.084. Thus the addition of the predictor variable EPS reduced our error in predicting and increased the predicting power of the model by 8.4%. The F-statistic showed that the change in R square associated with the addition of the variable to the model containing the control variables was significant at 0.01 level. There was significant improvement in the relationship between the set of independent variables and the dependent variable when the variable EPS was added.

The following regression was obtained from the regression results:

$Pt = 18.134 + 2.094EPS + 11.100DPS + 0.136PE - 0.034POR + 3.064PBV + \varepsilon$

Using the p-values obtained from the regression output the predictor variable EPS was found to be significant at 0.01 level. There was a statistically significant relationship between EPS and share price at 0.01 level. The unstandardised coefficient associated with EPS (2.094) was positive implying that controlling for other variables constant, if EPS increased by 1 unit share price would increase by 2.094 units.

EPS had a beta of 0.310 showing that a change of one standard deviation in the predictor variable (EPS) would result in a change of 0.310 standard deviations in the criterion variable (share price). EPS also had high partial and part correlations showing that it had high correlation with share price independent of the other predictors in the model. DPS had the greatest influence on the dependent variable as shown by its beta value of 0.570 and its high part and partial correlations while POR had the lowest negative influence of -0.105.

5.3 Conclusion

The present study was undertaken to examine the empirical relationship between equity share prices and earnings of firms listed at the NSE. The results revealed that there is a significant relationship between earnings and share prices. The study also showed that earnings and dividends are among the strongest predictors of share price. It was also found that there were other variables that were significantly correlated with share price. These included DPS and PBV which were used as control variables in the study. The other control variables used, P/E and POR, were found to have no significant relationship with share price.

5.4 Recommendations

Since earnings is a strong predictor of share price investors need to consider change in earnings when making investment decisions in order to maximize their returns. It is important that company managers make decisions that enhance increase in earnings which will be accompanied by rise in share prices so as to maximise the value of the firm. Results of the study also showed that dividend is a strong predictor of market price. Liberal dividend policy is recommended and it is suggested that companies pay regular dividends. This policy will affect market price of share in positive direction.

5.5 Limitations of the Study

The research only examined data for five years. The period could potentially be too short and therefore capable of yielding biased results. Industry effect was not taken into consideration. Since it is known that different firms may operate in different environments that affect earnings and share prices differently. The study did not control

for some factors such as political environment that may affect investor attitude and hence share price.

5.6 Suggestions for Further Research

The study was based on the Kenyan market, NSE. More research should be done covering a larger region and more capital markets to establish whether similar results will be obtained. The study was confined to the period from January 2007 to December 2012. More research needs to be done covering a longer period.

The research studied companies from all market segments without distinguishing between them. Further research is recommended in which the companies are segmented according to industries. This will reveal any industry effect on the relationship between earnings and share prices. More research is also suggested to investigate other factors affecting share price. More study should also be done on the effect of earnings on share prices while controlling for some other factors like political environment which may also affect share prices

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APPENDICES

Appendix 1: Companies Listed at Nairobi Securities Exchange

Agricultural	
1. Eaagads Ltd	2. Kapchorua Tea Co. Ltd
3. Kakuzi	4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd	6. Sasini Ltd
7. Williamson Tea Kenya Ltd	
Commercial and Services	
8. Express Ltd	9. Kenya Airways Ltd
10. Nation Media Group	11. Standard Group Ltd
12. TPS Eastern Africa (Serena) Ltd	13. Scangroup Ltd
14. Uchumi Supermarket Ltd	15. Hutchings Biemer Ltd
16. Longhorn Kenya Ltd	
Telecommunication and Technology	
17. AccessKenya Group Ltd	18. Safaricom Ltd
Automobiles and Accessories	
19. Car and General (K) Ltd	20. CMC Holdings Ltd
21. Sameer Africa Ltd	22. Marshalls (E.A.) Ltd
Banking	
23. Barclays Bank Ltd	24. CFC Stanbic Holdings Ltd
25. I&M Holdings Ltd	26. Diamond Trust Bank Kenya Ltd
27. Housing Finance Co Ltd	28. Kenya Commercial Bank Ltd
29. National Bank of Kenya Ltd	30. NIC Bank Ltd
31. Standard Chartered Bank Ltd	32. Equity Bank Ltd
33. Co-operative Bank of Kenya Ltd	

Insurance	
34. Jubilee Holdings Ltd	35. Pan Africa Insurance Holdings Ltd
36. Kenya Re-Insurance Corporation Ltd	37. Liberty Kenya Holdings Ltd
38. British-American Investments Company (Kenya) Ltd	39. CIC Insurance Group Ltd
Investment	
40. Olympia Capital Holdings Ltd	41. Centum Investment Co Ltd
41. Centum Investment Co Ltd	42. Trans-Century Ltd
Manufacturing and Allied	
43. B.O.C Kenya Ltd	44. British American Tobacco Kenya Ltd
45. Carbacid Investments Ltd	46. East African Breweries Ltd
47. Mumias Sugar Co. Ltd	48. Unga Group Ltd
49. Eveready East Africa Ltd	50. Kenya Orchards Ltd
51. A.Baumann CO Ltd	
Construction and Allied	
52. Athi River Mining	53. Bamburi Cement Ltd
54. Crown Berger Ltd	55. E.A.Cables Ltd
56. E.A.Portland Cement Ltd	
Energy and Petroleum	
57. KenolKobil Ltd	58. Total Kenya Ltd
59. KenGen Ltd	60. Kenya Power & Lighting Co Ltd
Growth Enterprise Market Segment	
61. Home Afrika Ltd	

Appendix 2: Sampled Companies and Table of Data

COMPANY	Pt	EPS	DPS	P/E	POR	PBV
	2012	**2011**	**2011**	**2011**	**2011**	**2011**
1. KAKUZI LIMITED	74.75	32.88	3.75	2.54	11.405	0.39
2. REA VIPINGO PLANTATIONS	17.5	7.79	1.1	2.311	14.121	0.47
3. SASINI TEA AND COFFEE LIMITED	12.5	1.97	0.8	6.117	40.609	0.31
4. ACCESSKENYA GROUP	5.05	0.52	0	26.92	0	0.61
5. CAR AND GENERAL (KENYA) LIMITED	25.5	8.64	0.8	5.064	9.2593	0.31
6. KENYA AIRWAYS LIMITED	21.13	7.66	1.5	5.52	19.582	0.17
7. NATION MEDIA GROUP LIMITED	189	7.66	8	21.21	104.44	3.5
8. SCANGROUP LIMITED	52.5	3.2	3.2	17.34	100	2.52
9. STANDARD GROUP LIMITED	25.5	1.99	0	18.84	0	0.8
10. TPS SERENA HOTELS	48.5	4.16	1.3	13.82	31.25	0.71
11. BARCLAYS BANK OF KENYA LIMITED	13.35	1.49	1.5	9.53	100.67	2.43
12. CFC STANBIC BANK (former CFC Bank)	42.63	5.99	0	11.06	0	0.57
13. DIAMOND TRUST BANK (KENYA) LTD	105.5	15.32	1.7	7.474	11.097	11.1
14. EQUITY BANK LIMITED	20.38	2.79	0.8	8.111	28.674	1.77
15. HOUSING FINANCE COMPANY LIMITED	15.45	2.7	1.2	8.196	44.444	0.61
16. CENTUM INVESTMENT CO. (ICDCI) LTD	14.15	3.79	0	4.678	0	1.36
17. JUBILEE HOLDINGS LIMITED	165	35.09	5.5	5.343	15.674	1.26
18. NATIONAL BANK OF KENYA LIMITED	21.5	5.52	0.4	7.065	7.2464	0.54
19. KENYA COMMERCIAL BANK LIMITED	22.68	3.7	1.85	5.643	50	1.13
20. KENYA RE-INSURANCE CORP. LTD	10.1	3.19	0.35	3.386	10.972	0.56
21. NIC BANK LIMITED	32.75	6.72	0.5	5.692	7.4405	0.9
22. PAN AFRICA INSURANCE COMPANY LTD	30	4.62	2	13.85	43.29	0.94
23. STANDARD CHARTERED BANK (K) LTD	196.5	20.33	11	11.63	54.107	2.22
24. ATHI-RIVER MINING LIMITED	189	11.61	2	12.79	17.227	0.97
25. BAMBURI CEMENT COMPANY LIMITED	155	15.98	10	10.79	62.578	1.61
26. BRITISH AMERICAN TOBACCO KENYA LTD	337	30.98	18	7.521	58.102	2.93
27. CROWN-BERGER KENYA LIMITED	31.75	5.44	1.25	5.882	22.978	0.43
28. EAST AFRICAN CABLES LIMITED	11.03	1.24	0.5	14.02	40.323	0.91
29. EAST AFRICAN PORTLAND CEMENT CO.	48.5	6.24	0	14.74	0	0.63
30. EAST AFRICAN BREWERIES LIMITED	204	11.4	8.75	16.58	76.754	4.51
31. EVEREADY EAST AFRICA LIMITED	1.93	-0.59	0	-5.93	0	1.03
32. KENYA OIL COMPANY LIMITED	13.35	2.22	1	4.482	45.045	1.11
33. BOC KENYA LTD	101	7.71	6.8	16.15	88.197	1.44
34. KENYA ELECTRICITY GEN. CO. (KENGEN)	8.9	0.95	0.5	14.11	52.632	0.2
35. TOTAL KENYA LTD	16.5	-0.41	1.05	-57	-256.1	0.21

36. MUMIAS SUGAR COMPANY LTD	5.88	1.26	0.5	7.921	39.683	0.55
37. SAMEER AFRICA LIMITED	4.28	0.35	0.2	19.71	57.143	0.50
38. UNGA GROUP LIMITED	11.95	5.83	0.75	1.99	12.864	16.7
39. EXPRESS KENYA LIMITED	3.95	-6.47	3.9	-1.23	-60.278	0.38
40. KAPCHORUA TEA COMPANY LIMITED	136	47.8	7.5	2.793	15.69	0.35
41. WILLIAMSON TEA KENYA LIMITED	247.5	-46.7	12.5	-4.71	-26.744	0.3
42. LIMURU TEA COMPANY LIMITED	425	33.74	7.5	9.573	22.229	2.16
	2011	**2010**	**2010**	**2010**	**2010**	**2010**
43. KAKUZI LIMITED	83.5	19.88	2.5	3.395	12.575	0.56
44. REA VIPINGO PLANTATIONS	18	1.12	0.8	15.22	71.429	0.85
45. SASINI TEA AND COFFEE LIMITED	12.05	4.36	0.5	2.741	11.468	0.36
46. ACCESSKENYA GROUP	14	-0.04	0.3	-460	-750	1.7
47. CAR AND GENERAL (KENYA) LIMITED	43.75	10.69	0.8	4.139	7.4836	0.57
48. KENYA AIRWAYS LIMITED	42.28	4.41	1	11.51	22.676	0.53
49. NATION MEDIA GROUP LIMITED	162.5	9.79	8	14.91	81.716	4.84
50. SCANGROUP LIMITED	55.5	2.73	2.73	23.63	100	3.83
51. STANDARD GROUP LIMITED	37.5	3.78	0.5	10.05	13.228	1.48
52. TPS SERENA HOTELS	57.5	3.48	1.25	16.52	35.92	0.99
53. BARCLAYS BANK OF KENYA LIMITED	14.2	7.81	1.36	7.042	17.414	2.7
54. CFC STANBIC BANK (former CFC Bank)	66.25	5.14	0.8	12.89	15.564	0.83
55. DIAMOND TRUST BANK (KENYA) LTD	114.5	15.22	1.33	6.866	8.7385	8.74
56. EQUITY BANK LIMITED	22.63	1.93	0.8	10.56	41.451	3.64
57. HOUSING FINANCE COMPANY LIMITED	22.13	1.65	0.7	13.79	42.424	1.43
58. CENTUM INVESTMENT COMPANY (ICDCI) LTD	17.73	1.99	0	9.111	0	1.03
59. JUBILEE HOLDINGS LIMITED	187.5	37.15	5.5	4.172	14.805	1.63
60. NATIONAL BANK OF KENYA LIMITED	39	7.22	1	6.233	13.85	1.09
61. KENYA COMMERCIAL BANK LIMITED	20.88	2.43	1.25	8.498	51.44	1.64
62. KENYA RE-INSURANCE CORPORATION LTD	10.8	2.57	0.35	4.319	13.619	0.63
63. NIC BANK LIMITED	38.25	5.19	0.5	7.659	9.6339	1.98
64. PAN AFRICA INSURANCE COMPANY LTD	64	12.28	3	5.334	24.43	1.72
65. STANDARD CHARTERED BANK KENYA LTD	236.5	18.73	13.5	12.15	72.077	3.64
66. ATHI-RIVER MINING LIMITED	148.5	10.86	1.75	12.68	16.114	1.36
67. BAMBURI CEMENT COMPANY LIMITED	172.5	14.6	8.5	12.88	58.219	2.63
68. BRITISH AMERICAN TOBACCO KENYA LTD	233	17.67	13.25	13.19	74.986	3.85
69. CROWN-BERGER KENYA LIMITED	32	3.85	1.25	8.766	32.468	0.87
70. EAST AFRICAN CABLES LIMITED	17.38	0.91	1	21.98	109.89	1.05
71. EAST AFRICAN PORTLAND CEMENT CO.	92	-3.25	0	-32.8	0	1.01
72. EAST AFRICAN BREWERIES LIMITED	189	11.18	8.75	16.59	78.265	5.35

73. EVEREADY EAST AFRICA LIMITED	3.5	0.04	0	90.75	0	1.2
74. KENYA OIL COMPANY LIMITED	9.95	1.3	0.52	7.846	40	1.28
75. BOC KENYA LTD	124.5	4.06	9.4	35.22	231.53	1.71
76. KENYA ELECTRICITY GEN. CO.(KENGEN)	13.4	1.49	0.5	10.03	33.557	0.26
77. TOTAL KENYA LTD	23.35	5.3	1.05	5.755	19.811	0.38
78. MUMIAS SUGAR COMPANY LTD	9.98	1.03	0.4	10.73	38.835	1.33
79. SAMEER AFRICA LIMITED	6.9	0.21	0	36.1	0	0.94
80. UNGA GROUP LIMITED	11.6	3.12	0.5	3.526	16.026	0.25
81. EXPRESS KENYA LIMITED	7.95	-0.79	7.8	-12.7	-987.34	0.35
82. KAPCHORUA TEA COMPANY LIMITED	133.5	35.6	6.25	3.75	17.556	0.53
83. WILLIAMSON TEA KENYA LIMITED	220	100.1	6.25	1.844	6.2469	0.44
84. LIMURU TEA COMPANY LIMITED	323	62.37	7.5	5.131	12.025	2.45
	2010	**2009**	**2009**	**2009**	**2009**	**2009**
85. KAKUZI LIMITED	67.5	23.04	2.5	1.172	10.851	0.25
86. REA VIPINGO PLANTATIONS	17.05	2.48	0.5	4.94	20.161	0.56
87. SASINI TEA AND COFFEE LIMITED	11.95	2.34	0.4	2.748	17.094	0.18
88. ACCESSKENYA GROUP	18.38	0.73	0.4	27.19	54.795	2.33
89. CAR AND GENERAL (KENYA) LIMITED	44.25	8.89	0.67	4.162	7.5366	0.61
90. KENYA AIRWAYS LIMITED	50.75	-8.85	1	-2.98	-11.3	0.17
91. NATION MEDIA GROUP LIMITED	146	7.85	5.5	16.62	70.064	3.5
92. SCANGROUP LIMITED	64.5	1.82	1.82	11.95	100	2.37
93. STANDARD GROUP LIMITED	38	3.59	0.5	11.91	13.928	1.29
94. TPS SERENA HOTELS	57.5	3.6	1.25	10.94	34.722	0.79
95. BARCLAYS BANK OF KENYA LIMITED	55	4.49	2.5	10.58	55.679	2.52
96. CFC STANBIC BANK (former CFC Bank)	66.25	0.13	0	438.5	0	0.61
97. DIAMOND TRUST BANK (KENYA) LTD	104.5	8.31	1.55	7.341	18.652	18.66
98. EQUITY BANK LIMITED	20.38	1.14	0.4	13.55	35.088	2.32
99. HOUSING FINANCE COMPANY LIMITED	22.75	1.02	0.5	16.16	49.02	1.02
100.CENTUM INVESTMENT CO. (ICDCI) LTD	18.13	0.57	0	24.47	0	0.96
101.JUBILEE HOLDINGS LIMITED	155	20.3	4.5	0.542	22.167	1.36
102.NATIONAL BANK OF KENYA LIMITED	45	7.31	0	4.788	0	0.99
103.KENYA COMMERCIAL BANK LIMITED	20.65	1.84	1	10.87	54.348	1.99
104.KENYA RE-INSURANCE CORPORATION LTD	11.1	2.21	0.5	5.543	22.624	0.77
105.NIC BANK LIMITED	39.75	3.33	0.5	11.26	15.015	1.5
106.PAN AFRICA INSURANCE COMPANY LTD	65.5	2.89	1.7	18.34	58.824	1.63
107.STANDARD CHARTERED BANK KENYA LTD	227.5	17.4	12	8.448	68.966	3.15
108.ATHI-RIVER MINING LIMITED	137.8	6.52	1.5	13.04	23.006	1.25
109.BAMBURI CEMENT COMPANY LIMITED	188	19.2	11	7.161	57.292	2.08
110.BRITISH AMERICAN TOBACCO (K) LTD	233	14.78	14.75	10.93	99.797	3.01

111.CROWN-BERGER KENYA LIMITED	33.75	3.64	1.25	6.011	34.341	0.61
112.EAST AFRICAN CABLES LIMITED	20	1.46	1	15.16	68.493	1.79
113.EAST AFRICAN PORTLAND CEMENT CO.	106.5	20.38	1.3	3.754	6.3788	0.6
114.EAST AFRICAN BREWERIES LIMITED	185.5	10.89	8.05	11.41	73.921	4.34
115.EVEREADY EAST AFRICA LIMITED	3.63	0.13	0	20	0	1.16
116.KENYA OIL COMPANY LIMITED	10.2	8.8	3.25	5.682	36.932	0.73
117.BOC KENYA LTD	143	7.88	6.8	19.42	86.294	1.81
118.KENYA ELECTRICITY GEN. CO.(KENGEN)	14.95	0.94	0.5	14.1	53.191	0.31
119.TOTAL KENYA LTD	30.5	2.79	1	11.07	35.842	0.4
120.MUMIAS SUGAR COMPANY LTD	11.05	1.05	0.4	5.048	38.095	0.67
121.SAMEER AFRICA LIMITED	7.58	0.57	0.5	9.351	87.719	0.58
122.UNGA GROUP LIMITED	11	2.45	0	4.143	0	0.22
123.EXPRESS KENYA LIMITED	10.03	0.43	8.05	25	1872.1	0.36
124.KAPCHORUA TEA COMPANY LIMITED	133.5	17.87	6.5	4.477	36.374	0.28
125.WILLIAMSON TEA KENYA LIMITED	184.5	12.55	4	9.004	31.873	0.22
126.LIMURU TEA COMPANY LIMITED	320	22.47	7.5	14.02	33.378	5.41
	2009	**2008**	**2008**	**2008**	**2008**	**2008**
127.KAKUZI LIMITED	27	14.43	1	2.096	6.93	0.2
128.REA VIPINGO PLANTATIONS	12.25	2.8	0.2	6.464	7.1429	0.95
129.SASINI TEA AND COFFEE LIMITED	6.43	3.88	0	3.204	0	0.27
130.ACCESSKENYA GROUP	19.85	1	0.4	27.75	40	3.97
131.CAR AND GENERAL (KENYA) LIMITED	37	9.64	0.67	5.187	6.9502	0.75
132.KENYA AIRWAYS LIMITED	26.38	8.38	1.75	6.086	20.883	0.38
133.NATION MEDIA GROUP LIMITED	130.5	18.17	5.5	13.62	30.27	2.31
134.SCANGROUP LIMITED	21.75	1.43	1.43	20.28	100	2.75
135.STANDARD GROUP LIMITED	42.75	3.91	1.1	13.52	28.133	1.99
136.TPS SERENA HOTELS	39.38	2.1	1.25	31.79	59.524	1.01
137.BARCLAYS BANK OF KENYA LIMITED	47.5	4.07	2	15.48	49.14	3.35
138.CFC STANBIC BANK (former CFC Bank)	57	3.09	0.5	32.36	16.181	0.85
139.DIAMOND TRUST BANK (KENYA) LTD	61	6.91	1.4	11.58	20.26	20.26
140.EQUITY BANK LIMITED	15.45	10.56	3	20.64	28.409	3.33
141.HOUSING FINANCE COMPANY LIMITED	16.48	0.59	0.3	56.27	50.847	1.22
142.CENTUM INVESTMENT CO. (ICDCI) LTD	13.95	1.58	0.45	14.8	28.481	1.7
143.JUBILEE HOLDINGS LIMITED	11	15.85	4.25	11.1	26.814	1.73
144.NATIONAL BANK OF KENYA LIMITED	35	6.2	0	6.935	0	1.39
145.KENYA COMMERCIAL BANK LIMITED	20	1.89	1	13.43	52.91	2.47
146.KENYA RE-INSURANCE CORPORATION LTD	12.25	2.47	0.5	5.81	20.243	0.96
147.NIC BANK LIMITED	37.5	3.5	0.5	34.71	14.286	2.32
148.PAN AFRICA INSURANCE COMPANY LTD	53	-2	0	-42.3	0	2.51

149.STANDARD CHARTERED BANK KENYA LTD	147	11.95	10	16.19	83.682	3.78
150.ATHI-RIVER MINING LIMITED	85	5.08	1.25	19.69	24.606	1.99
151.BAMBURI CEMENT COMPANY LIMITED	137.5	9.4	6	19.84	63.83	2.63
152.BRITISH AMERICAN TOBACCO KENYA LTD	161.5	17	17	9.059	100	2.22
153.CROWN-BERGER KENYA LIMITED	21.88	1.3	1	24.62	76.923	0.64
154.EAST AFRICAN CABLES LIMITED	22.13	2.29	1	16.59	43.668	2.87
155.EAST AFRICAN PORTLAND CEMENT CO.	76.5	5.96	0	15.27	0	0.91
156.EAST AFRICAN BREWERIES LIMITED	124.3	11.61	8.05	13.78	69.337	6.45
157.EVEREADY EAST AFRICA LIMITED	2.6	0.08	0	78.75	0	1.62
158.KENYA OIL COMPANY LIMITED	50	7.85	3.5	11.43	44.586	0.85
159.BOC KENYA LTD	153	10.26	6.8	15.59	66.277	1.52
160.KENYA ELECTRICITY GEN. CO.(KENGEN)	13.25	2.68	0.9	9.142	33.582	0.54
161.TOTAL KENYA LTD	30.88	4.02	2.5	7.4	62.189	1.12
162.MUMIAS SUGAR COMPANY LTD	5.3	0.79	0.4	32.97	50.633	1.81
163.SAMEER AFRICA LIMITED	5.33	0.54	0	18.02	0	0.74
164.UNGA GROUP LIMITED	10.15	5.92	0	2.171	0	0.27
165.EXPRESS KENYA LIMITED	10.75	-1.22	13	-16.4	-1065.6	0.57
166.KAPCHORUA TEA COMPANY LIMITED	80	-17.8	2.5	-4.71	-14.013	0.34
167.WILLIAMSON TEA KENYA LIMITED	113	-11.1	0.5	-8.98	-4.4883	0.15
168.LIMURU TEA COMPANY LIMITED	315	14.11	10	23.95	70.872	3.85
	2008	**2007**	**2007**	**2007**	**2007**	**2007**
169.KAKUZI LIMITED	30.25	9.78	0	4.32	0	0.37
170.REA VIPINGO PLANTATIONS	18.1	1.92	0.8	12.7	41.667	1.35
171.SASINI TEA AND COFFEE LIMITED	12.43	-0.21	0	-344	0	0.93
172.ACCESSKENYA GROUP	27.75	0.87	0.3	20.84	34.483	4.3
173.CAR AND GENERAL (KENYA) LIMITED	50	7.85	0.67	6.242	8.535	1.18
174.KENYA AIRWAYS LIMITED	51	8.88	1.75	10.3	19.707	0.7
175.NATION MEDIA GROUP LIMITED	247.5	15.1	10.5	19.21	69.536	5.81
176.SCANGROUP LIMITED	29	1.54	1.54	15.91	100	7.79
177.STANDARD GROUP LIMITED	52.88	3.96	1	15.91	25.253	2.78
178.TPS SERENA HOTELS	66.75	3.93	1.25	24.55	31.807	1.11
179.BARCLAYS BANK OF KENYA LIMITED	63	3.62	1.65	21.41	45.58	6.11
180.CFC STANBIC BANK (former CFC Bank)	100	5.93	1.9	82.21	32.04	3.35
181.DIAMOND TRUST BANK (KENYA) LTD	80	4.54	1.4	18.5	30.837	30.85
182.EQUITY BANK LIMITED	218	5.22	2	21.31	38.314	3.64
183.HOUSING FINANCE COMPANY LIMITED	33.2	0.64	0.25	67.58	39.063	3.64
184.CENTUM INVESTMENT CO. (ICDCI) LTD	23.38	2.03	0.45	23.65	22.167	1.76
185.JUBILEE HOLDINGS LIMITED	176	14.73	4.25	20.06	28.853	2.48
186.NATIONAL BANK OF KENYA LIMITED	43	5.6	0	9.464	0	1.88

187.KENYA COMMERCIAL BANK LIMITED	25.38	1.49	0.7	16.03	46.98	4.31
188.KENYA RE-INSURANCE CORPORATION LTD	14.35	1.4	0.35	11.56	25	1.41
189.NIC BANK LIMITED	121.5	2.51	0.8	48.8	31.873	3.91
190.PAN AFRICA INSURANCE COMPANY LTD	84.5	4.19	1.6	23.51	38.186	3.32
191.STANDARD CHARTERED BANK KENYA LTD	193.5	12.76	10	16.07	78.37	5.13
192.ATHI-RIVER MINING LIMITED	100	4.26	1.25	15.02	29.343	2.68
193.BAMBURI CEMENT COMPANY LIMITED	186.5	10.5	6	20	57.143	4.07
194.BRITISH AMERICAN TOBACCO KENYA LTD	154	13.86	17	11.9	122.66	2.43
195.CROWN-BERGER KENYA LIMITED	32	3.23	1	14.94	30.96	1.31
196.EAST AFRICAN CABLES LIMITED	38	2.06	0.9	33.98	43.689	4.79
197.EAST AFRICAN PORTLAND CEMENT CO.	91	8.49	2.6	14.9	30.624	1.32
198.EAST AFRICAN BREWERIES LIMITED	160	11.43	7.7	12.25	67.367	4.43
199.EVEREADY EAST AFRICA LIMITED	6.3	0.6	0	28.58	0	3.06
200.KENYA OIL COMPANY LIMITED	89.75	5.84	0	19.86	0	1.78
201.BOC KENYA LTD	160	13.7	9.25	10.95	67.518	2.14
202.KENYA ELECTRICITY GEN. CO.(KENGEN)	24.5	1.11	0.8	28.86	72.072	0.6
203.TOTAL KENYA LTD	29.75	2.99	2.5	12.21	83.612	1.24
204.MUMIAS SUGAR COMPANY LTD	26.05	2.73	1.5	14.77	54.945	1.32
205.SAMEER AFRICA LIMITED	9.73	0.43	0	57.56	0	1.59
206.UNGA GROUP LIMITED	12.85	2.12	0	8.42	0	0.39
207.EXPRESS KENYA LIMITED	20	2.29	24.5	11.63	1069.9	1.39
208.KAPCHORUA TEA COMPANY LIMITED	84	-0.24	5	-542	-2083	0.45
209.WILLIAMSON TEA KENYA LIMITED	100	16.31	5	7.219	30.656	0.33
210.LIMURU TEA COMPANY LIMITED	338	2.34	5	151.7	213.68	4.33