ABSTRACT

The objective of the study was to establish whether there exists any relationship between the intrinsic and market values of listed firms in the Nairobi Securities Exchange. Market value is the price at which a stock would trade in a competitive auction market setting. Intrinsic value refers to the actual value of a stock determined through analysis of the stock’s total returns without reference to its market value. This intrinsic value may or may not be the same as the current market value. To achieve the study objective, the researcher adopted a descriptive research survey design to show how the study variables relate to each other. The target units of analysis for this study were all the sixty one (61) companies currently listed in the Nairobi Securities Exchange (NSE) thus the study used a census methodology to gather data. The study used secondary data from the financial statements of the companies listed in the NSE. The study used Statistical Package for Social Sciences (SPSS) to generate the descriptive statistics and also to generate inferential results. The presentation of the results was done by use of graphs and tables and cross-tabulations for clarity and ease of understanding of the findings. The simple linear regression model was used to measure the relationship between the intrinsic value and market value which is explained in the model. The study revealed that there exists a positive relationship between intrinsic and market value as analyzed by the linear regression analysis. The positive relationship of intrinsic and market value is further confirmed by Pearson’s Bivariate correlation which means that a positive change in the intrinsic value of the firm results in a positive change in market value of the firm. ANOVA results of the study presented the model used to determine the relationship between market value and intrinsic value to be statistically significant. The conclusion derived from this study is that an investor can use intrinsic value to determine whether a firm is underpriced, perfectly priced or overpriced when making investment decisions relating to a firm’s stock.