

**THE EFFECT OF SHARE VALUATION METHOD USED BY
KENYAN COMPANIES ON THE IPO/SEO OUTCOME**

BY

JAMES G. OOKO

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ABSTRACT

This research investigated the effect of share valuation method used by Kenyan companies on the IPO/SEO outcome. The author explored the extent to which Kenyan companies use the various valuation methods and their effect on the initial return at the close of the first day of trading. The IPO offer prices and the initial return as well as the valuation method for the companies which issued IPOs between 2006 to 2011 were analyzed. Secondary data was used and data was analyzed using both descriptive statistics and correlation coefficient analysis. Average under pricing of 57.71% was observed in Kenya IPOs for the period under study. The Correlation between the offer price and the initial return was 0.341745, implying that the share prices and the valuation method tested do not significantly influence the IPO initial return on the first day of trading. The magnitude of the over subscription and under subscription together with the reasons for the choosing certain valuation methods have also been briefly explored. The study noted that in Kenya two main valuation methods are used for valuation of IPOs by most company. These two valuation methods are Discounted Cash Flow method and Company Comparable Multiples. The study concluded that valuation method alone does not significantly influence the outcome of the share on the first day of trading in the Kenyan market. The magnitude of the over subscription and under subscription is also briefly explored.