EFFECT OF FREE CASH FLOW ON PROFITABILITY OF FIRMS LISTED ON THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

I declare that this research project is my original work and has not been presented to any other university or institution of higher learning for examination.

Sign:…… Date:……..

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D61/79097/2012

This research project has been submitted for presentation with my approval as the University of Nairobi supervisor

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DEDICATION

I wish to dedicate this project to my family especially to my husband Cleophas Ojode, my children, Brian, Brenda and Bridgitte who encouraged me while I was undertaking this project.

ABSTRACT

The discourse objective of the study was to determine the effect of free cash flow on the profitability on firms listed at the Nairobi Securities Exchange. This study adopted a descriptive survey that aimed at analyzing the effect of free cash flow on the profitability of firms listed at the NSE. The population consisted of sixty one (61) companies listed at the NSE as at June 2014. A stratified sampling method was used to pick a sample of 30 companies listed at NSE. Firms under finance and investment sector were not considered because they use different mechanism in financing their operations. Financial firms were also subject to strict regulations and their accounting mechanism was different from that of other sectors. The objective of the study is to determine the effect of free cash flow on the profitability on firms listed at the Nairobi Securities Exchange.

Secondary data was extracted from audited annual reports and financial statements of firms sourced from NSE and CMA for a period of five years (2009 –2013).The annual financial statements included: the statement of comprehensive income and the statement of financial position. Data was sorted, cleaned and coded then entered into statistical package for social science (SPSS). Data analysis was done using a regression model since the nature of the data was quantitative. Data was collected from financial statements and published accounts. The amount of free cash flows available per year was used. Free Cash flow was measured using the following formula: Profit After Tax –[Changes in capital expenditure, Depreciations and Amortization –changes in working capital. Profit after tax was obtained from the Income statement, changes in Capital expenditure was obtained from Balance Sheets and Cash Flow Statements; Depreciation & Amortization was obtained from Prior & Current Balance Sheets: Current Assets and Liability accounts. Changes in Working Capital was obtained from the Balance Sheets and Cash Flow Statements.

Based on the regression results, it was found that the r-squared for the model was 0.745, meaning that the regression model used for this study is a good predictor. The independent variables explained 74.5% of the variation in profitability of listed firms. Only 25.5% of variation in profitability of listed firms is not explained by the regression model. The correlation between the variables was explained by (R=8.63) which shows there is a strong positive correlation between the two variables. Holding all other factors constant, an increase in one unit of the independent variables (free cash flows, capital liquidity and the size of the firm) results into a corresponding decrease in one unit of profitability of firms. Therefore, the study concluded that there existed an inverse relationship between free cash flows and profitability of listed firms in the Nairobi Securities Exchange. This is because independent variables in the regression model obtained p-values of more than 5% as shown in the Table 4.5 of the study findings. The findings are consistent with the study conducted by Gregory (2005) and Parsian & Amir (2013) who found that the independent variables of free cash flow and profitability current ratio have negative and significant impact on dividend payout ratio.

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ACQ	-	Acquisitions
ASEA	-	African Stock Exchange Association
CAPEX	-	Capital Expenditure
CMA	-	Capital Market Authority
EBIT	-	Earning Before Interest & Tax
FCF	-	Free Cash Flow
GDP	-	Gross Domestic Product
MM	-	Modigliani and Miller
MPT	-	Modern Portfolio Theory
NPV	-	Net Present Value
NSE	-	Nairobi Securities Exchange
R&D	-	Research & Development
ROI	-	Rate of Investment
ROR	-	Rate of Return
TSE	-	Teran Stock Exchange
US	-	United States
WC	-	Working Capital

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Companies that have high free cash flow are likely to attract investors that look for efficient opportunities to invest their additional resources in the market. Creditors and investors are willing to invest in companies that have high free cash flows because the strength of debt kickback and the definition of financial flexibility of the company are the means for assessing these companies. In addition, cash profits and debts reduction are not possible without possession of cash paying. The free cash flows theories were introduced in 1986 for the first time by Jensen and it gradually evolved, as one of the new topics in the financial literature which describes the behavior of companies that is not justifiable with previous economic theories (Griffith & Carroll, 2001).

Free cash flows is one of the key tools for measuring the financial performance of business unit and shows the cash that company has after performing the necessary costs for maintenance or development of assets (Habib, 2011).Free cash flows can have important applications for shareholders in assessing the financial soundness of the business unit. The managers who invest free cash flows in projects with positive net present value (NPV) as a result of efficient use from their owned resources contribute to the increase of the firm value. Firms have a choice between internal and external sources to finance their investments. Internal sources include retained earnings and depreciation, while external sources refer to debt and equity (Jensen & Smith, 2005).

1.1.1 Free Cash Flow

Free cash flow is a measure of how much cash a business generates after accounting for capital expenditures such as buildings or equipment. This cash can be used for expansion, dividends, reducing debt, or other purposes. Free cash flow show the amount of cash the company allocates or budgets after spending for maintenance or development of property. Free cash flow is a cash flow available for capital provider, which is for reinvestment, after fulfilling the requirements of the business, such cash flow which is extra or free, is referred to as free cash flow. Free cash flow (FCF) can also be defined as cash available for resource provider (equity or debt provider). Jensen (1986) defines free cash flow as cash in excess of that which is required to fund all positive net present value projects. Free cash flow is a firm's net income plus depreciation/amortization and all other non-cash charges minus changes in working capital and expenditure. Free cash flow is the amount of cash left after paying the bills and making new investment and on - going capital improvements. Earnings include plenty of non cash components such as depreciation of equipment, armotisation of capital expenditures, provision of bad debts and other accounting entries which may or may not reflect current economic reality. Earnings can be manipulated whereas free cash flow is very difficult to manipulate.

Investors should also be aware that companies can influence their free cash flow by lengthening the time they take to pay the bills (thus preserving their cash), shortening the time it takes to collect what's owed to them (accelerating the receipt of cash), and putting off buying inventory. It is also important to note that companies have some leeway about what items are or are not considered capital expenditures, and the

investor should be aware of this when comparing the free cash flow of different companies (Jensen & Michael, 1996).

Maintaining suitable amount of liquidity within the firms is fundamental for the smooth operations of firms. Managers have a propensity to hold large percentage of firm assets in the form of cash and cash equivalents in order to reinvest on other physical assets, payments to stockholders and to keep cash inside the firm (Hann, Ogneva & Ozbas, 2010).The level of cash a firm maintains is described by its policies regarding capital structure, working capital requirements, cash flow management, dividend payments, investments and asset management. (Jensen, 2000), defines free cash flow as cash flow in excess of what is required to fund positive NPV investments. Free cash flow is a sign of agency problems because excess cash may not be returned to shareholders. When firms have free cash, any acquisitions made by these firms are, by definition, negative net present value. Free Cash Flow can be expressed as: FCF=EBIT (1-Tax) + Depreciation ± Change in W.C- Capital Expenditure

1.1.2 Profitability

Maheshwari (2001) notes that profitability of a firm means the ability to make profit from all the business activities of a firm or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. According to Harward "profitability is the 'the ability of a given investment to earn a return from its use (Srivastava and Srivastava, 2006). Profit maximization is said to be the main objective of all firms. Increasing profitability involves determining which areas of a financial strategy are working and which ones need improvement. The management of any firm is charged with a responsibility of making the right decisions that would maximize the returns of an organization. In reality, firms do have profits targets,

and sometimes they pay managers for reaching them, but the goals of firms are broader than their profits alone (Chandra, 2002).

One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line and its return to its investors. Profitability measures are important to managers and owners of the firm since they show the overall efficiency and performance of firms. Profitability ratios can be divided into two types namely margin and returns (Petersen and Kumar.2010). Ratios that show margins represent the ability of the firm to translate sales into profits at various stages of measurement. Ratios are essential tools for measuring profitability of firms because they illustrate the ability of the firm to measure its overall efficiency in generating returns to its shareholders (Khan & Jain, 2003).

Margin Ratios are used in measuring the profitability of a firm for instance gross profit margin which looks at the costs of goods sold as a percentage of sales. The other measure is operating profit margin also known as EBIT which measures the overall efficiency of the manufacturing firm (Maheshwari, 2001).The other measure of profitability in manufacturing firms is return on assets ratio which measures efficiency with which the company is managing its investment in assets and using them to generate profit. It measures the amount of profit earned relative to the firm's level of investment in total assets. The other measure of profitability is return on equity ratio, this measure of profitability is significant in measuring the return on the money the investors have put into the manufacturing firm which is a ration of net income divided by stockholders equity (James et al., 2005).

1.1.3 The Relationship between the Free Cash Flow and Profitability

Free cash flow is a cash flow available for resource providers after paying all expenses and requirements of business which are necessary for keeping it into operating form. Proper management of working capital components enables the firms to hold excess free cash flows which can in turn be investment in profitable investments to generate profits for the firm. Cutting of costs has a significant effect on the free cash flow held by the firm; this permits the firm to have additional finances to take advantage of profitable investment projects that can yield higher returns. Free cash flow does not only impact on revenues and profitability of the firm but also the management of the balance sheet. If the firm fails to manage its net working capital properly then free cash flows might be lower than the net earnings of the firm.

Recent research by Hubbard (1998) shows that there is a significant positive relationship between free cash flows and profitability, an increase in the level of cash flow of a firm leads to a corresponding increase in profits of the firm. This is achieved through investing. The firm should consider making key investment decisions to make use of additional cash flows. For example firms that hold excess cash might use it in buying overpriced firms rather than paying out dividends to the shareholders. This is possible even when the firms have a low financial capacity after making acquisitions since they invest in non profitable investment projects (Carolyn, Carroll & Griffith, 2001).

Firms can decide to hold free cash flows for speculative purpose as they wait for a profitable investment that can promise better returns in future. The firm can also decide to invest in risk investments that have higher returns; these investments may later yield better returns which could be profitable to the firm. On the other hand if

poorly invested free cash flows can negatively impact on the profits of the firm if the firm engages in risk investments and end up losing (Griffith & Carroll, 2001).

1.1.4 Firms Listed On The Nairobi Securities Exchange

As a capital market institution, the stock exchange plays an important role in the process of economic development. The NSE began in the early 1920's while Kenya was considered a colony under British control. It was an informal market place for local stocks and shares. By 1954, a true stock exchange was created when NSE was officially recognized by London Stock Exchange as an overseas stock exchange.NSE is licensed under the Capital Market Authority (CMA) with its main obligation to regulate the security market and ensure trading of securities by bringing together borrowers and investors at low cost. Regulation of quoted firms is achieved by ensuring that firms stand by the rules and regulations set by providing their periodic performance reports. NSE also provides information to general public on investment matters.

The shares of sixty one companies listed at the NSE trade are in four sectors namely; agriculture, commercial and services, finance and investment and industrial and allied while bonds traded consist of government and corporate bonds. Trading activities are conducted through stock brokers who meet on the floor of NSE and facilitate the exchange of shares and bonds through auctioning process. In 2006, live trading on the automated trading systems of the NSE was implemented, to keep pace with other major world stock exchanges (NSE, 2011).The NSE is part of the African Stock Exchanges Association. The ASEA was founded in the early 1990's to create a way for all the stock exchanges in Africa to communicate and stay organized. NSE is Africa's fourth largest stock exchange in terms of trading volumes, and fifth in terms of market capitalization as a percentage of GDP.

Most firms listed at Nairobi Security Exchange have diversified their portfolios due to the nature of the business environment in order to remain competitive in the market (Hann, Ogneva & Ozbas, 2010). Through diversification firms have been able to experience growth in their assets, increase shareholders wealth and expansion of portfolios. This has been achieved through proper investment decisions and corporate governance. This however has limited firms from accessing free cash flow leading to an increase in investments.

1.2 Research Problem

Managers have a tendency to hold large proportion of firm assets in the form of cash and cash equivalents in order to reinvest on other physical assets, payments to stockholders and to keep cash inside the firm. The problem related to free cash flows was discovered when it was apparent that managers did not invest the free cash flows to the advantage of shareholders rather they hold it and went for negative NPV projects which worked for their benefits, preferring bonuses and internal projects. Free cash flow is cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital (Harford, 1999).Conflicts of interest between shareholders and managers over payout policies are especially severe when the organization generates substantial free cash flow. The problem is how to motivate managers to disgorge the cash rather than investing it at below the cost of capital or wasting it on organization inefficiencies (Nuccia & Pozzolo, 2000).

Firms in the Nairobi securities exchange have shifted focus to diversification in order to mitigate losses to increase profitability. The existence of an efficient market in Kenya has enabled most investors to take advantage of available information to invest

in profitable investment and projects that are profitable. Listed firms are also focusing on ways of managing the working capital components in order to mitigate costs of running the firm (Ngugi, 2005).

Studies have investigated on the implications of the free cash flow hypothesis on firm investment activity. Lamont (1997) and Berger and Hann (2003) found that firms that had the invested more held less free cash flow. Related studies by Harford (1999) and Opler, Pinkowitz, Stulz, and Williamson (1999, 2001), concluded that cash rich firms are more likely to make acquisitions and these cash rich acquisitions are followed by abnormal declines in operating performance.

Opler et al., (1999) found that firms with excess cash (measured using balance sheet cash information) had higher capital expenditures, and spent more on acquisitions, even when they appear to have poor investment opportunities, this is supported by Blanchard et al. (1994), who did a study on eleven firms with windfall legal settlements and found that such firms appeared to engage in wasteful expenditure.

In the Kenyan context, Waithaka, Ngugi, Aiyabei, Itunga, & Kirago (2012), conducted a study on the effect of dividend policy on the share prices; it was found that that free cash flow caused conflict between management and shareholders which in turn affected the share price. Other researchers Onsare (2013) and Kotut (2012) investigated on the link between investment rate and economic growth, the results of the study revealed that there was a positive relationship between investment rate and economic growth. These studies did not investigate on the relationship between free cash flow and the profitability; therefore this study attempts to answer the following research question: what is the effect of free cash flow on profitability by firms listed on the Nairobi Securities Exchange?

1.3 Research Objective

The objective of this study was to determine the effect of free cash flow on the profitability on firms listed at the Nairobi Securities Exchange.

1.4 Value of the Study

The findings of this study will benefit the following, academicians and researchers intending to use findings of this study as a basis for further research. The study will also be useful since it will add more knowledge on the effect of free cash flow on profitability by firms listed at the Nairobi Securities.

The findings of this study will provide more insights to foreign and local investors on the effect of free cash flow on investment while considering investment decisions and diversification of portfolios to increase profitability.

Financial analysts and consultants stand to benefit from the findings of this study; it will enable them provide improved financial services especially on investment decisions in order to achieve an increase profitability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses various theories on free cash flow, investment theories, the effect on free cash flow on profitability and the chapter summary.

2.2 Theoretical Review

This study is informed by three theories namely: Free Cash Flow Theory, modern portfolio theory and pecking order theory. These theories provide theoretical evidence of various arguments by different scholars and researchers in relation to free cash flow on the profitability.

2.2.1 Free Cash Flow Theory

Jensen & Michael (1996) posits that in the free cash flow theory, managers do not behave in a manner consistent with profit maximization. Managers instead use increased cash flow to pursue objectives that have little to do with increasing profits and a great deal to do with making the managers lives better (such as increasing the size of their company), or easier. The agency cost explanation introduced by Jensen, Clifford & Smith (1995), suggests that monitoring difficulty creates the potential for management to spend internally generated cash flow on projects that are beneficial from a management perspective but costly from a shareholder perspective.

It holds that investments reduce free cash flow available to pursue their personal opportunitinist consumption and suboptimal investments. Donaldson (1997), argues that managers of firms with free cash flows (cash flows in excess of profitable investment opportunities) tend to waste cash by taking excessive perquisites or by

making unprofitable investments. Managers are more likely to use the free cash flows to make investments that will be incremental to the size of the firm (or to pay themselves excessive perks), than to pay dividends to the shareholders or repurchase outstanding shares. A testable implication of the agency hypothesis is that firms that have free cash flows are likely to grow beyond the optimal point of shareholder wealth maximization. Shareholders of such firms will benefit from any managerial decision that prevents these wasteful expenditures. Share repurchases prevent such waste by using up excess cash flows (Jensen & Smith, 1995).

The fact that capital markets punish dividend cuts with large stock price reductions is consistent with the agency costs of free cash flow. Debt creation, without retention of the proceeds of the issue, enables managers to effectively bond their promise to pay out future cash flows. Thus, debt can be an effective substitute for dividends, something not generally recognized in the corporate finance literature. By issuing debt in exchange for stock, managers are bonding their promise to pay out future cash flows in a way that cannot be accomplished by simple dividend increases. In doing so, they give shareholder recipients of the debt the right to take the firm into bankruptcy court if they do not maintain their promise to make the interest and principal payments (Jensen & Michael,1996).

2.2.2 Modern Portfolio Theory

According to Findlay & Hamilton (1979), modern Portfolio Theory (MPT) approaches investing by examining the entire market and the whole economy. The theory is an alternative to the older method of analyzing each investment's individual merits. Investors look at each investment's individual merits, they are analyzing one investment without worrying about the way different investments will perform

relative to each other. On the other hand, MPT places a large emphasis on the correlation between investments.

Markowitz (1952) developed a basic portfolio model that demonstrated how risk could be reduced within a portfolio by combining assets whose returns demonstrate less than perfect positive correlation. The Markowitz theory exploited the low correlation between two assets and demonstrates that as long as the correlation between the two assets is low, the risk component of a portfolio would be less than the average of the risk of the individual assets (Goslings & Petri, 1991).Portfolio could be reduced by spreading the amount of funds available for investments into a variety of opportunities, each in a different risk class. Institutional investors have over the years achieved portfolio diversification using property and equity as their prime investments (Reddy, 2001).

The proponents of MPT argued Property′s high relative management costs are increased by a globally-scattered portfolio where no scale efficiencies can be obtained; there are additional costs in monitoring the local managing agents. Gordon (1991), as a result, the tendency would be to concentrate holdings on a small number of markets (and on larger units) thus sacrificing potential diversification gains. Market access may be problematic; particularly where the market capitalization is small in relation to the size of fund there may simply be no appropriately sized buildings available. Liquidity problems make it difficult to implement and actively manage a portfolio strategy (Brown, 1991).

Markets with low correlations to the global portfolio are often those with least research and most restrictive market practices. Information may be difficult and costly to obtain; it is rare that data will be of good quality and with a long time-series.

Furthermore, there may be comparability problems caused by differences in ownership and legal structures, valuation methodologies and terminology. In individual asset selection, local factors may dominate, placing the overseas investor without a local partner at a relative disadvantage (Ennis & Burik, 1991)

2.2.3 Pecking Order Theory

Pecking order theory also referred to as information asymmetry theory was proposed by Ross (1996), Fama & French (2004) suggests that firms prefer to finance new investments, first internally with retained earnings, then with debt and finally with the issue of new equity. The pecking-order theory is based on two assumptions: Firstly, according to informational asymmetry, managers are better informed about their own firms' prospect than are outside investors. So, when they decide to issue new equity to finance new projects it is almost invariably taken by outside investors as a signal that the firm's prospects, as seen by management, are not good and that the said issue is therefore overvalued and therefore causes the firm's share price to fall (Ross, 1996).

Secondly, the pecking order assumes that managers act in the best interest of their existing shareholders, maximizing the value of existing shares, so that, they will even forego positive NPV projects if accepting them forces the firm to issue undervalued equity at higher issuing costs to new investors which would in part disadvantage their existing shareholders (Agca & Mozumdar, 2003).

Although adverse selection costs distinguish the pecking order theory from other capital structure theories, empirical studies fail to effectively control for this key feature of the theory. Proponents argue that this is why the empirical evidence concerning the pecking order theory is mixed. Shyam-Sunder and Myers (1999) find support for firms. Reliance on debt financing for a sample of large firms drawn from

the 1970s and 1980s. By contrast, Frank and Goyal (2003) find a significant increase in firms. Reliance on equity financing for a sample of firms drawn from the 1990s. Lemmon and Zender (2003) offer an explanation for these conflicting findings based on debt capacity. They argue that firms close to their debt capacity may be forced to issue equity. Consistent with this, Frank & Goyal (2003), estimate a piecewise linear model and find that firms prefer debt to equity before reaching their debt capacity (Krishnaswami & Subramaniam, 1999).

While the issue of debt capacity is important, it cannot explain the findings of Fama and French (2004) that equity issues are common even for large firms that are not under duress. Thus it seems that the debt capacity argument is not sufficient to explain all equity issues within the pecking order theory. However, in the multi-period pecking order, equity issuance can be optimal even when firms have internal cash or sufficient debt capacity. We provide evidence that the conflicting empirical results can be reconciled, in favor of the pecking order theory, when the empirical specification explicitly allows for time-variation in adverse selection costs.

2.3 Determinants of the Profitability

Profitability is represented by the ratio of earnings before tax to total assets, a variable that reflects the firms' ability to generate earnings from its assets. The variables that are used in an attempt to determine the firm's profitability include size, leverage, sales growth, investment and current assets (Stern, 2002).

2.3.1 Size of the firm

Total assets and turnover, are the variable utilized in the present study following Rajan and Zingales (1995), are commonly used as a substitute for size. Larger firms not only enjoy a higher turnover and therefore are able to generate higher income, but

also have better access to capital markets (Titman and Wessels, 1988) and lower cost of borrowing (Ross, Westerfield & Jaffe, 2002).

2.3.2 Leverage

Leverage is another determinant of profitability; it can be measured by using different financial ratios. Ross et al. (2002) define leverage as either the ratio of total debt to total equity or the ratio of total debt to total assets, which is the variable used in the present study. It is expected that leverage affects profitability negatively since higher debt values require more resources by the firm in order to repay the debt, reducing the funds available for investment.

2.3.3 Sales Growth

Sales in growth is a significant determinant of profitability, sales growth of the firm is measured by the ability of the firm to achieve growth in sales, ceteris paribus, providing it with additional income for the current period, facilitating also its further expansion and is therefore expected to affect its profitability positively (Sachs and Warner, 1995).

2.3.4 Investment

Physical capital investment is expected to affect profitability positively since it expands production, aiming at improving sales, cash flow and profit-generating ability. Using data available in financial statements and assuming that the majority of new investment is materialized through the increase of fixed assets, this variable is calculated as the growth rate of gross fixed assets in two consecutive years (Voulgaris, Doumpos and Zopounidis, 2000).

2.3.5 Current Assets

The inefficient management of current assets by a firm that is building up excessive stock or receivables that signal difficulties in either selling its products or collecting income from past sales has a negative impact on profitability and therefore we expect a negative sign for this variable. (Rajan and Zingales, 1995).

2.4 Empirical Studies

A study conducted by Parsian & Amir (2013) investigated on the effects of various factors on dividend payout ratio of Tehran Stock Exchange (TSE) listed companies. We use time series regression (panel data) in order to test the hypothesis of this study. This study provides empirical evidences by choosing a sample of 102 companies over the time span of 2005-2010. The result shows that independent variables of free cash flow and profitability current ratio have negative and significant impact on dividend payout ratio; whereas, the independent variable of leverage ratio has a positive and significant impact on dividend payout ratio

Onsare (2013) did a descriptive survey to find out the relationship between investment and economic growth in Kenya, the study used GDP values and investment for the period 1993-2012 using data from the Kenya National Bureau of Statistics. Data was analyzed using a regression of the annual growth rate in GDP as the dependent variable and Investment rate as the independent variable. The results show low correlation between GDP rate and Investment rate.

In his study, Habib (2011) surveyed 7,229 companies listed on the Australian stock exchange between 1992 and 2005. He studied the current cash flow, stable profitability and growth opportunities on the stock returns, and to test hypotheses he

used the multiple regression method. Data analysis was carried out using a multiple regression model and the results of the analysis show that firms with greater growth opportunities and free cash flow will have a higher value price, and additionally free cash flow is positively related to stock return while profitability is short-term.

Wanja (2011) conducted a study on the relationship between the determinants of working capital management i.e. inventory, debtors, creditors, and the cash level of Kenyan SMEs. This research was conducted through a survey study. The target population of this study was the sampled 205 SMEs. Data was analyzed using a regression model and the results of the study found that firms with greater cash flow volatility hold more cash in order to provide a safe cushion for smooth operations.

Mong'o (2010) analyzed the impact of cash flow on profitability among commercial banks in Kenya over a period from 2005- 2009. It was specifically conducted to explain the influence that various components of cash flows have on profitability growth. The study was carried out by analyzing the various banks profit measured by the profit after tax the dependent variable and the cash flow components (operating, financing and investing) as the independent variables. A Multiple regression models were used to analyse the data and to provide a basis for the conclusions drawn. The findings for the study indicated that profits among commercial banks improved tremendously during the last five years. Cash flow from operating activities experienced the same trend which was occasioned by the improved performance which translated to financing and investing cash flow which have shown consistent increase over the five years. Cash flow from the financing and the investing activities were found to have a great influence (positive) of the banks profit while operating cash flow have a negative effect.

Kemboi (2010) carried out a descriptive survey on listed firms in the capital market, a firm-level panel data for the period 2000-2008.Tests were based on fundamentals q investment equations in which cash flow and debt were added as explanatory variables. The results of the study revealed a significant positive relationship between debt and investment levels in both types of firms.

Ahmed and Javid (2009) conducted a descriptive survey on the effect of free cash flow on dividend payout of 320 non financial firms listed in Karachi Stock Exchange in Pakistan, the study used a five years trend from 2001-2006 and data was analyzed using a multiple regression model, it was concluded that firms with larger free cash flow pay larger dividends.

ZHI Xiaoqiang (2009), a study was conducted in China in relation to internal cash flow and investment expenditure, a descriptive survey was carried out in 55 banks, secondary data was used using eight years trend, data was then analyzed using a regression analysis, the results of the analysis showed that there was an inverse relationship between internal cash flow and investment expenditure among banks in China.

In another study carried out in London, Gregory (2005) did a cross sectional survey of UK takeovers of listed domestic companies using 8 years trend, 67 firms were selected and trend analysis was conducted to establish the pattern of performance of listed takeovers and free cash flow, the results of the study revealed that there was an inverse relationship between performance of UK takeovers of listed domestic firms and free cash flow.

Opondo, (2004), conducted a study on earnings and free cash flow to evaluate corporate performance among commercial banks (43) in Kenya, a descriptive survey

was conducted and data was analyzed using descriptive statistics, the results of the study revealed that there is no significant difference between free cash flow measure of corporate performance and that of earnings especially when the amount of maintenance capital spending cannot be properly segregated.

A study was conducted by Lang, Stulz, and Walkling (1991), a sample of 55 US firms was conducted through stratified sampling, a seven year trend was used (1980-1986) and a regression analysis was used for data analysis, the results of the analysis showed that there was a negative relationship between bidder returns and cash flow.

2.5 Summary of the Literature Review

Studies have been carried out in relation to the effect of free cash flow on profitability. The empirical evidence has shown that firms with free cash flow are able to invest in profitable projects. From the above studies, scholars have arrived at a conclusion that firms holding free cash flows are in a better position to take advantage of profitable projects that can promise higher returns in future. The empirical evidence has shown that there is an inverse relationship between free cash flow and profitability of firms. This is supported by a study conducted by Gregory (2005) and Parsian & Amir (2013) who found that the independent variables of free cash flow and profitability current ratio have negative and significant impact on dividend payout ratio. Therefore this study is geared towards establishing whether empirical evidence is consistent with the hypothesis of the above studies by determining the effect of free cash flow on profitability by firms listed on the Nairobi securities exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section covers the research methodology which was presented in the following order: research design, population of the study, sample design, data collection and data analysis.

3.2 Research Design

This study adopted a descriptive survey that aimed at analyzing the effect of free cash flow on the profitability of firms listed at the NSE. Descriptive research, also known as statistical research describes data and characteristics about population or phenomenon being studied. Singh & Nath (2010), a descriptive survey was used to obtain information concerning the current status of the phenomena to describe with respect to variables or conditions in a situation. The methods involved ranged from the survey which described the relationship between the variables.

3.3 Population of the Study

Mugenda and Mugenda (2003) describe target population as the complete set of individual's cases or objects that are being investigated. The population consisted of sixty one (61) companies listed at the NSE as at June 2014 (Appendix 1).

3.4 Sample

A stratified sampling method was used to pick a sample of 30 companies listed at NSE. Firms under finance and investment sector were not considered because they use different mechanism in financing their operations. Financial firms were also

subject to strict regulations and their accounting mechanism was different from that of other sectors.

3.5 Data Collection

Secondary data was extracted from audited annual reports and financial statements of firms sourced from NSE and CMA for a period of five years(2009 –2013).The annual financial statements included: the statement of comprehensive income, the statement of financial position and the cash flow statement.

3.6 Data Analysis

Data was sorted, cleaned and coded then entered into statistical package for social science (SPSS). Data was analyzed using a regression model since the nature of the data was quantitative. Data was collected from financial statements and published accounts.

The amount of free cash flows available per year was used, Free Cash flow was measured using the following formula: Profit After Tax – [Changes in capital expenditure + Depreciations and Amortization –changes in working capital]

Profit after tax was obtained from the Income statement

Changes in Capital expenditure was obtained from Balance Sheets and Cash Flow Statements

Depreciation & Amortization was obtained from Prior & Current Balance Sheets: Current Assets and Liability accounts

Changes in Working Capital was obtained from the Balance Sheets and Cash Flow Statements.

Capital liquidity was obtained from cash flow statement and balance sheet

Logarithm of total assets was obtained from the balance sheet statement

The profitability was measured using return on capital employed in each year.

3.6.1 Analytical Model

To achieve the objective of this study, the researcher used a multiple regression model to establish the relationship between free cash flow and the profitability as shown below:

$$\mathbf{P_{Y\,=}\ a + b_1x_1 + b_2x_2 + b_3x_3 + e}$$

Y= Profitability which was measured using return on capital employed which was calculated using earnings before interest and tax divided by capital employed.

$\mathbf{X_1}$ = Capital Liquidity was measured using liquid assets that was divided by the total assets held by the listed firm.

$\mathbf{X_2}$**=** Represented the size of the firm which was measured using natural logarithm of total assets.

$\mathbf{X_3}$**=**Free cash flows was determined using operating cash flow minus capital expenditures.

b= Slope of the regression measuring the amount of the change in Y associated with a unit change in X

e =Error term within a confidence interval of 5%

3.6.2 Diagnostic Tests

T-test was used to test the hypothesis that free cash flows have a significant effect on the profitability on firms listed on the Nairobi securities exchange. A particular coefficient is significantly different from zero or whether the estimated coefficient value occurred by chance in equation. The tests were performed at 95% degrees of confidence.

CHAPTER FOUR
DATA ANALYSIS, INTERPRETATION OF FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on effect of free cash flow on the profitability on firms listed at the Nairobi Securities Exchange. The study used secondary data was obtained from financial statements of stratified firms consisting a sample of 30 companies listed at NSE. Firms under finance and investment sector that were not considered because they use different mechanism in financing their operations.

4.2 Descriptive Statistics

Descriptive statistics is the discipline of quantitatively describing the main features of a collection of information, or the quantitative description itself. Descriptive statistics are distinguished from inferential statistics or inductive statistics, in that descriptive statistics aim to summarize a sample, rather than use the data to learn about the population that the sample of data is thought to represent.

Table 4.1 Descriptive Statistics

	N	Y	X_1	X_2	X_3
Minimum	30	10.52	23.2	1.3	.12
Maximum	30	56.40	66.52	12.1	.21
Median	30	25.2	55.67	10.1	.01
Mean	30	35.4	44.86	8.123	.11
Standard Deviation	30	5.949	6.698	2.850	.332

Source: Research Findings

In table 4.1 statistical analysis of profitability is shown in the table above. The maximum score of profitability is 56.40 and the minimum score for profitability is 10.52 and the mean for profitability for the listed firms is 35.4 The Free cash flows has a maximum score of 66.52 while its minimum value is 23.2 as shown above. Similarly; the mean for free cash flows for the listed firms' is 44.86 with a standard deviation of 6.698.With respect to the capital liquidity, the maximum score was found to be 12.1 while its minimum score is 1.3.

The average capital liquidity of the listed firms is 8.123 with a standard deviation of 2.85. In relation to the size of the firm, its minimum score as shown in the table above is 0.12 and the minimum score is 0.21.The results shows that the mean for the industry is 0.11 with a standard deviation of .332.

4.3 Correlation Analysis

The study determined the relationship between the effects of free cash flows on the profitability of firms listed at the Nairobi Securities Exchange to establish the strength of the relationship between the variables. Below are the findings indicted in the table 4.2 below:

Table 4.2 Correlation between the Study Variables

	Free cash flows	Capital Liquidity	Size of the Firm	Profitability
Free cash flows	1			
Capital Liquidity	-.827	1		
Size of the Firm	-.564	-.065	1	
Profitability	-.707	-.634	-.005	1

Source: Research Findings

From the above findings in Table 4.2, the spearman correlation coefficients, T-statistics are shown in parentheses. The sample comprises 30 firms' year observations for the period 2009-2013. The strength of the association between the variables is defined by Pearson correlation scale where the values between 0.0-0.3 indicate that there is no correlation, 0.31-0.5 shows a weak correlation, 0.51-0.7 a moderate correlation and between 0.71-1 indicated that there is a strong correlation between the variables.

From the findings in the table 4.2 above, the results revealed that there is a strong negative relationship between the free cash flows and profitability of listed firms. The findings further reveal that there is a strong negative relationship between free cash flows and profitability of listed firms as provided in the table above as follows: (R= -0.707).

4.4 Regression Analysis

In order to establish the relationship between independent and dependent variables, a multiple regression was conducted. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements for the multiple regressions for the study. The findings were as shown in the table 4.3 below.

4.4.1 Model Summary

The model summary was used to summarize the relationship between free cash flows and profitability of listed firms by determining the correlation and coefficient of determination of the regression model as provided below: The findings were as shown below:

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863(a)	.745	.567	.2341

Source: Research Findings

Results in table 4.3 indicate that the r-squared for the model was 0.745, meaning that the regression model used for this study is a good predictor. The independent variables explained 74.5% of the variation in profitability of listed firms. Only 25.5% of variation in profitability of listed firms is not explained by the regression model. The correlation between the variables is explained by (R=8.63) which shows there is a strong positive correlation between the two variables.

4.4.2 Analysis of Variance

Analysis of Variance (ANOVA) is a statistical method that was used to test differences between free cash flows and profitability of listed firms. The results are provided in the table below:

Table 4.4: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.037	3	0.679	13.58	.021(a)
	Residual	1.310	26	0.050		
	Total	3.347	29			

Source: Research Findings

From the ANOVA's results, the probability value of 0.021(a) implies that the regression model was significant in predicting the relationship between the independent variables and the dependent variable. The significance between the variables less than α=0.05. By use of the F-table, the F (5%, 3, 26) tabulated was 2.98 which was less than F= 24.419 which as well indicated that the model was significant. This result indicates that the overall regression model is statistically significant and is useful for prediction purposes at 5% significance level.

4.4.3 Test for Coefficients

Regression coefficients represent the mean change in the response variable (Profitability) for one unit of change in the predictor variable while holding other predictors in the model constant. This statistical control that regression provides is important because it isolates the role of one variable from all of the others in the model.

Table 4.5 Test for Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.324	1.163		4.710	.000
	Free Cash Flows	-0.210	.305	-.112	3.206	.061
	Capital Liquidity	-0.101	.0254	-.120	-.604	.072
	Size of the Firm	-0.423	.3411	-.137	1.218	.054
a. Dependent Variable: Profitability						

Source: Research Findings

The study conducted a regression analysis so as to determine the effect of free cash flows on profitability (dependent variable) of listed firms. The following regression equation was obtained:

$EBIT = 0.324 - 0.210X_1 - 0.101X_2 - 0.423X_3$

Using the above model, it is possible to determine the relationship between free cash flows and profitability of listed firms using the following independent variables: free cash flows, capital liquidity and the size of the firm. Holding all other factors constant, an increase in one unit of the independent variables (free cash flows, capital liquidity and the size of the firm) results into a corresponding decrease in one unit of profitability of firms, this means that an inverse relationship exists between free cash flows and profitability of listed firms in the Nairobi Securities Exchange. The independent variables in the above model are however, insignificant since all of them have p-values of more than 5% as shown in the Table 4.5 above.

4.5 Summary and Interpretation of Findings

The correlation results revealed that there was a strong negative relationship between the free cash flows and profitability of listed firms. The findings further reveal that there is a strong negative relationship between free cash flows and profitability of listed firms as provided in the table above as follows: (R= -0.707).These findings are consistent with the following studies: A study conducted by Parsian & Amir (2013) investigated on the effects of various factors on dividend payout ratio of Tehran Stock Exchange (TSE) listed companies. We use time series regression (panel data) in order to test the hypothesis of this study. This study provides empirical evidences by choosing a sample of 102 companies over the time span of 2005-2010. The result shows that independent variables of free cash flow and profitability current ratio have negative and significant impact on dividend payout ratio; whereas, the independent variable of leverage ratio has a positive and significant impact on dividend payout ratio

In another study by Mong'o (2010), the study was specifically conducted to explain the influence that various components of cash flows have on profitability growth. The

study was carried out by analyzing the various banks profit measured by the profit after tax, the dependent variable and the cash flow components (operating, financing and investing) as the independent variables. A Multiple regression model was used to analyze the data and to provide a basis for the conclusions drawn. The findings for the study indicated that profits among commercial banks improved tremendously during the last five years. Cash flow from operating activities experienced the same trend which was occasioned by the improved performance which translated to financing and investing cash flow which have shown consistent increase over the five years. Cash flow from the financing and the investing activities were found to have a great influence (positive) of the banks profit while operating cash flow have a negative effect.

According to the regression results, it was observed that the independent variables explained 74.5% of the variation in profitability of listed firms. Only 25.5% of variation in profitability of listed firms is not explained by the regression model. Further, the regression analysis established that, holding all other factors constant, an increase in one unit of the independent variables (free cash flows, capital liquidity and the size of the firm) results into a corresponding decrease in one unit of profitability of firms, this means that an inverse relationship exists between free cash flows and profitability of listed firms in the Nairobi Securities Exchange. This is supported by the following studies: The empirical evidence has shown that there is an inverse relationship between free cash flow and profitability of firms. This is supported by a study conducted by Gregory (2005) and Parsian & Amir (2013) who found that the independent variables of free cash flow and profitability current ratio have negative and significant impact on dividend payout ratio.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of the key data findings, discussions, conclusions drawn from the findings, limitations of the study, policy recommendations and suggestions for further study in the quest of achieving the research objective.

5.2 Summary of Findings and Discussions

The study was carried out to establish the effect of free cash flow on profitability of listed firms in Kenya. Data from 30 of the listed firms was collected representing 100% response rate. These secondary data was collected from the listed firms at Nairobi Securities Exchange.

According to the findings, the descriptive statistics results revealed that the maximum score of profitability is 56.40 and the minimum score for profitability is 10.52 and the mean for profitability for the listed firms is 35.4 The Free cash flows has a maximum score of 66.52 while its minimum value is 23.2 as shown above. Similarly; the mean for free cash flows for the listed firms' is 44.86 with a standard deviation of 6.698.

From the above findings in Table 4.2, the spearman correlation coefficients, T-statistics are shown in parentheses. The sample comprises 30 firms' year observations for the period 2009-2013. It was further observed that there was a strong negative relationship between the free cash flows and profitability of listed firms. The findings further reveal that there is a strong negative relationship between free cash flows and profitability of listed firms as provided in the table above as follows: (R= -0.707).

According to the findings the r-squared for the model was 0.745, meaning that the regression model used for this study is a good predictor. The independent variables explained 74.5% of the variation in profitability of listed firms. Only 25.5% of variation in profitability of listed firms is not explained by the regression model. The correlation between the variables is explained by (R=8.63) which shows there is a strong positive correlation between the two variables.

From the ANOVA's results, the probability value of 0.021(a) implies that the regression model was significant in predicting the relationship between the independent variables and the dependent variable. The significance between the variables less than α=0.05. Using the above model, it is possible to determine the relationship between free cash flows and profitability of listed firms the following independent variables free cash flows, capital liquidity and the size of the firm.

Holding all other factors constant, an increase in one unit of the independent variables (free cash flows, capital liquidity and the size of the firm) results into a corresponding decrease in one unit of profitability of firms, this means that an inverse relationship exists between free cash flows and profitability of listed firms in the Nairobi Securities Exchange. The independent variables in the above model are; however, insignificant since all of them have p-values of more than 5% as shown in the Table 4.5 above

5.3 Conclusions

According to the findings, the maximum score of profitability is 56.40 and the minimum score for profitability is 10.52 and the mean for profitability for the listed firms is 35.4 The Free cash flows has a maximum score of 66.52 while its minimum

value is 23.2 as shown above. Similarly; the mean for free cash flows for the listed firms' is 44.86 with a standard deviation of 6.698.In reference to correlation , it was concluded that a strong negative correlation between free cash flows and profitability of listed firms in the Nairobi Securities Exchange.

Based on the regression results, it was found that the r-squared for the model was 0.745, meaning that the regression model used for this study is a good predictor. The independent variables explained 74.5% of the variation in profitability of listed firms. Only 25.5% of variation in profitability of listed firms is not explained by the regression model. The correlation between the variables is explained by (R=8.63) which shows there is a strong positive correlation between the two variables. Holding all other factors constant, an increase in one unit of the independent variables (free cash flows, capital liquidity and the size of the firm) results into a corresponding decrease in one unit of profitability of firms. Therefore, the study concluded that there existed an inverse relationship exists between free cash flows and profitability of listed firms in the Nairobi Securities Exchange. This is because independent variables in the regression model obtained p-values of more than 5% as shown in the Table 4.5 of the study findings.

5.4 Limitations of the Study

The limitation of this study is that it utilized secondary data, which might be historical. The researcher exercised a lot of caution when using dated information from the previous years. With companies competing in fast changing industries, an out-of-date research reports many have little or no relevance to the current market situation. Therefore the researcher reviewed the secondary data before analysising to ensure that it was accurate and reliable.

The study adopted a multiple regression model with four variables: three independent variables (free cash flows, capital liquidity and the size of the firm) and one dependent variable (profitability). Future researchers can adopt a similar model but investigate on other variables that may have a bearing on the profitability of listed firms at the Nairobi Securities Exchange.

The study adopted was conducted in a period of five years between (2009-2013). These findings may not hold in the next five years as a result of macro-economic factors that might affect the profitability of the listed firms in Nairobi Securities Exchange. The factors might involve political factors, change of government regulations and technology.

Most of the financial statements are reaffirmed in the preceding years meaning that material misstatements of firms' performance can create a window of opportunity for prior year's adjustments and this may not be brought to the attention of the public. This means the pattern depicted may affect the relationship established.

This study was carried out within a limited time frame of five years with inadequate resources which constrained the scope and depth of the study. This necessitated the adoption of a sample design hence these findings cannot be used to make generalizations on the effect of free cash flows on profitability of listed firms in the Nairobi Securities Exchange.

5.5 Recommendations

The study also recommends that with a strong cash flow, a firm can borrow money to buy buildings, equipment and inventory; one essentially use future cash flow to make purchases. Inherently, one need positive future cash flow to pay for ones debt

commitments for Companies that have long-term loans and short-term credit accounts with vendors. Each loan requires monthly payments. The obligation to make these payments on an ongoing basis restricts the free cash flow, which is money available to invest in growing ones business.

The study recommends that investors should also be aware that companies can influence their free cash flow by lengthening the time they take to pay the bills (thus preserving their cash), shortening the time it takes to collect what is owed to them (accelerating the receipt of cash), and putting off buying inventory (again, preserving cash). It is also important to note that companies have some leeway about what items are or are not considered capital expenditures, and the investor should be aware of this when comparing the free cash flow of different companies.

The study recommends that listed firms should invest in profitable ventures in order to hold excess cash flows which is a measure of a company's ability to generate cash, which is a fundamental basis for stock pricing. This is why some people value free cash flow more than just about any other financial measure out there, including earnings per share.

The study recommends that firms should practice proper debt management to accumulate free cash flows in order to get the comfort and capabilities that a business needs to invest in growth. Building new locations, investing in research and development, renovating infrastructure, improving technology, providing more training and purchasing more assets and inventory are among the ways ones business can grow and improve with strong positive cash flow. Getting to a position of excess cash flow helps ones company operate in a strategic, proactive way, rather than a reactive, defensive way.

The study also recommends that cash flow also gives the business greater flexibility in responding to emerging dilemmas or making critical decisions. Confidence in cash flow makes it easier to make critical purchases in the near term rather than waiting. It also allows you to disperse cash in the form of dividends to shareholders or owners. This strengthens the bond between the company and its owners. Strong cash flow also makes your business more appealing to a lender if you desire to take on new debt at some point.

5.5.1 Policy Recommendations

The Government should create an enabling environment for listed firms to ensure that free cash flow relies heavily on the state of a company's cash from operations, which in turn is heavily influenced by the company's net income. Thus, when the company has recorded a significant amount of gains or expenses that are not directly related to the company's normal core business (a one-time gain on the sale of an asset, for example), the analyst or investor should carefully exclude those from the free cash flow calculation to get a better picture of the company's normal cash-generating ability.

The capital markets authority should implement policies to ensure that listed firms retain free cash flows from their operations in order to enable them expand, develop new products, buy back stock, pay dividends, or reduce its debt. High or rising free cash flow is often a sign of a healthy company that is thriving in its current environment. Furthermore, since FCF has a direct impact on the worth of a company, investors often go for companies that have high or improving free cash flow but undervalued share prices disparity often means the share price will soon increase.

The Association of Kenya bankers association should conduct regular audits to ensure that commercial banks offer financial advice to their customers to ensure that they engage in profitable ventures especially when giving out credit facilities. With financial information borrowers can be to make the right investment decisions through investing in profitable investments' that can yield higher returns in order to enable then to pay loans without defaults. This return will enable banks to maintain a sound financial position since they can retain free cash flows for investing in more profitable ventures.

Central banks should ensure that commercial banks maintain a proper balance between debt and credit in order to secure a sound cash flow that can sustain profitable projects and enable the firm to take advantage of profitable investment opportunities are more likely to yield higher returns.

5.5.2 Suggestions for Further Study

Future researchers and academicians can test the same variables in the finance sector laying more focus on finance and investment sectors since they were not considered in this study because they use different mechanism in financing their operations.

The study suggests that a similar research should be conducted after ten years to test whether the findings arrived at will still be the same as the current findings. Due to macroeconomic factors such as inflation, unemployment and technology, it would be appropriate for the future researchers to conduct the same study and find out whether the results will still hold.

Further studies should be carried out on all the listed firms in Nairobi Securities Exchange since this study only concentrated on the 30 firms. This will shed more

light on the findings in relation to the objective of the study which was to determine the effect of free cash flow on profitability on firms in NSE.

Future researchers and academicians should carry out studies in other firms not listed on the NSE. This study will be assist firms in making comparison on the findings for investors wishing to invest in capital projects.

Future researchers should incorporate more variables, for example Returns on Assets and Return on Investments, Return on Equity to find out whether these results will hold. This will provide a better platform for making key recommendations on the importance of generating free cash flows by a firm.

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APPENDIX I: NAIROBI SECURITIES EXCHANGE

Agriculture

Eaagads

Kakuzi

Kapchorua Tea Co.

The Limuru Tea Co.

Rea Vipingo Plantations

Sasini Ltd

Williamson Tea Kenya

Automobiles & Accessories

Car & General (K)

CMC Holdings

Marshalls (E.A)

Sameer Africa

Banking

Barclays Bank

CFC Stanbi of Kenya Holdlings

Diamond Trust Bank

Equity Bank

Housing Finance Co.

I&M Holdings Ltd.

Kenya Commercial Bank

National Bank of Kenya

NIC Bank

Standard Chartered

Co-op Bank of Kenya

Commercial & Services

Express

Hutchings Biemer

Kenya Airways

Longhorn Kenya

Nation Media Group

Scan Group

Standard Group

TPS EA (Serena)

Uchumi Supermarket

Construction & Allied

ARM Cement

Bamburi Cement

Crown Paints Kenya

E.A. Cables

E.A. Portland Cement

Energy & Petroleum

KenGen

Kenol Kobil

Kenya Power and Lighting Company

Total Kenya

Umeme Ltd

Insurance

British American Investments Company

CIC Insurance Group

Jubilee Holdings

Kenya Re Corporation

Liberty Kenya Holdings

Pan Africa Insurance

Investment

Centum Investment Company

Olympia Capital Holdings

Tarns-Century Ltd.

Manufacturing & Allied

A.Baumann & Company

B.O.C Kenya

British American Tobacco Kenya

Carbacid Investment

East African Breweries

Eveready EA

Kenya Orchards

Mumias Sugar Company

Unga Group

Telecommunication & Technology

Safaricom Ltd.

Growth & Enterprise Market Segment (GEMS)

Home Afrika Ltd.

APPENDIX II: SECONDARY DATA

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Eaagads Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	463,295	568,826	340,318	251,183	251,183	374,961
Earnings Before Interest and Tax	-83,223	36,178	101,480	42,960	42,960	28,071
Liquid Assets	7,242	84,987	86,803	60,037	60,037	67,821.2
Total Assets	499,561.00	573,356.00	354,922.00	276,789.00	276,789.00	396,283.40
KAKUZI Limited						
Total Net Assets=Capital Employed	3,570,362	3,425,677	3,466,163	2,834,912	2,460,100	3,151,443
Earnings Before Interest and Tax	239,306	567,806	920,093	559,043	575,922	572,434
Liquid Assets	1,170,655	1,237,473	1,174,645	795,569	618,438	999,356
Total Assets	3,717,543.00	3,571,700.00	3,817,320.00	3,218,590.00	2,873,255.00	3,439,682
Kapchorua Tea Company Ltd						
Total Net Assets=Capital Employed	1,689,490	1,506,002	1,296,110	1,085,314	961,226	1,307,628
Earnings Before Interest and Tax	255,753	112,576	268,393	199,538	99,735	187,199
Liquid Assets	823,337	752,190	575,942	678,761	347,641	635,574
Total Assets	2,078,475	1,962,897	1,570,203	1,498,931	1,167,797	1,655,661

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Kenya Orchards Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	58,753,377	56,393,037	56,203,080	55,545,814	55,039,016	56,386,865
Earnings Before Interest and Tax	997,828	780,295	1,311,301	646,881	251,293	797,520
Liquid Assets	22,812,359	21,682,330	21,867,275	24,465,857	27,167,922	23,599,149
Total Assets	70,597,300	68,936,272	70,372,491	74,491,123	78,703,987	72,620,235
Limuru Tea Company Limited						
Total Net Assets=Capital Employed	568,826	340,318	253,811	251,183	251,183	333,064
Earnings Before Interest and Tax	36,178	101,480	16,830	42,960	42,960	48,082
Liquid Assets	84,987	86,803	41,887	60,037	60,037	66,750
Total Assets	573,56	354,922	260,061	276,789	276,789	348,383
Rea Vipingo Plantations Ltd						
Total Net Assets=Capital Employed	2,576,767	2,118,634	1,863,504	1,270,167	1,189,672	1,803,749
Earnings Before Interest and Tax	647,992	555,293	678,846	103,910	214,066	440,021
Liquid Assets	1,040,887	879,556	894,146	586,491	502,524	780,721
Total Assets	2,797,430	2,376,618	2,288,740	1,707,016	1,414,084	2,116,778
Sasini Ltd						
Total Net Assets=Capital Employed	8,323,115	8,337,352	8,878,592	8,541,016	7,590,872	8,334,189
Earnings Before Interest and Tax	158,407	-85,225	1014139	1,382,375	759,722	645,884
Liquid Assets	1,295,043	1,109,871	1,243,233	1,227,656	1,041,011	1,183,363
Total Assets	905,4364	892,2980	9,462,027	9,060,061	7,998,233	8,899,533

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Williamson Tea Kenya Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	7,285,215	6,226,024	5,345,347	4,380,212	1,863,425	5,020,045
Earnings Before Interest and Tax	1,155,760	1,163,499	1,293,690	1,223,281	145,341	996,314
Liquid Assets	2,684,364	2,447,223	2,326,779	1,929,587	493,345	1,976,260
Total Assets	8,023,834	7,243,227	6,032,743	5,328,706	2,043,160	5,734,334
AVERAGE						
Total Net Assets=Capital Employed	9,588,993					
Earnings Before Interest and Tax	464,441					
Liquid Assets	3,663,624					
Total Assets	11,901,361.03					
Sameer Africa Limited						
Total Net Assets=Capital Employed	2,679,613.00	2,326,723	2,249,788	2,168,142	2,282,567	2,341,366.60
Earnings Before Interest and Tax	456,521	298,761	148,446	62,199	221,464	237,478.20
Liquid Assets						
Total Assets						
AVERAGE						
Total Net Assets=Capital Employed	1,726,036					
Earnings Before Interest and Tax	220,740					
Liquid Assets	1,730,972					
Total Assets	2,997,011.40					

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Barclays Bank Kenya Ltd	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	189,831	168,340	154,958	159,284	155,124	16,5507.4
Earnings Before Interest and Tax	11,134	13,020	12,071	13,553	9,002	11,756
Liquid Assets	16,908	16,486	12,212	13,131	9,751	13,698
Total Assets	206,739	184,826	167,029	172,415	164,875	179,177
The Co-operative Bank of Kenya Ltd						
Total Net Assets=Capital Employed	55,790,238	37,439,000	23,798,000	25,133,000	25,133,000	28,437,074
Earnings Before Interest and Tax	10,872,444.00	9,984,000.00	6,363,000.00	5,771,000.00	3,736,000.00	7,345,288.80
Liquid Assets	143,90,690.00	123,824,000.00	114,101,000.	90,965,000.00	66,620,000.00	107,740,138.
Total Assets	231,215,359	200,588,000	168,312,000	154,339,000 1	110,678,000	177,698,340
Diamond Trust Bank (Kenya) Ltd						
Total Net Assets=Capital Employed	33,001,498	25,302,138	19,554,595	15,039,977	11,288,378	20,837,317
Earnings Before Interest and Tax	7,235,003	6,027,899	4,307,413	3,462,999	1,929,862	8,592,635.20
Liquid Assets	12,708,759	11,508,861	8,281,501	6,465,148	4,570,661	8,706,986
Total Assets	166,520,351	135,461,412	107,759,818	83,600,177	66,679,080	112,004,168
EQUITY BANK LIMITED						
Total Net Assets=Capital Employed	82890141	75257675	52129035	38087718	30968787	55,866,671
Earnings Before Interest and Tax	19,150,422	17,248,674	12,679,143	8,950,289	5,219,821	12,649,670
Liquid Assets	7,965,319	7,703,654	7,166,639	8,500,359	4,359,233	7,139,041
Total Assets	277,728,818	243,170,458	196,293,896	143,018,114 1	100,811,750	204,501,231

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Housing Finance Company Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	16071976	15349877	2451234	11413751	4073376	9,872,043
Earnings Before Interest and Tax	1,480,356	907,631	975,795	561,028	351,118	855,186
Liquid Assets	1,719,004	1,454,359	384,034	420,390	319,839	859,525
Total Assets	47,389,377	40,956,577	31,870,916	29,278,396	18,239,359	33,546,925
I &M Holdings Limited						
Total Net Assets=Capital Employed	33482809	22236248	18052577	15502504	8764467	19,607,721
Earnings Before Interest and Tax	7,257,794	5,702,305	4,953,893	3,526,481	1,794,834	5,360,118
Liquid Assets	14,984,582	13,518,146	16,907,146	11,574,636	7,988,560	12,994,614
Total Assets	141,200,545	119,233,345	108,063,713	86,882,153	54,434,467	101,962,845
Kenya Commercial Bank Ltd						
Total Net Assets=Capital Employed	70,821,766.00	70,008,329.00	57,302,161.00	43,324,582.00	25,080,097.00	53,307,387.00
Earnings Before Interest and Tax	20,123,759.00	17,208,143.00	15,129,374.00	9,797,971.00	6,300,361.00	13,711,921.60
Liquid Assets	20,409,404.00	10,421,565.00	25,812,084.00	10211008.00	9067840.00	15184380.20
Total Assets	390,851,579.00	367,379,285.00	330,716,159.0	251,356,200.0	194,777,835.0	307,016,211.6
National Bank Of Kenya Ltd						
Total Net Assets=Capital Employed	13,433,096.00	11,673,899.00	11,436,407.00	11,409,393.00	9,211,228.00	11,432,804.60
Earnings Before Interest and Tax	1,812,168.00	1,156,856.00	2,443,850.00	2,697,823.00	2,159,441.00	2,054,027.60
Liquid Assets	3,501,986.00	2,902,985.00	2,250,352.00	1,988,893.00	1,470,378.00	2,422,918.80
Total Assets	92,555,717.00	67,178,607.00	68,664,516.00	60,026,694.00	51,404,408.00	67,965,988.40

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
NIC BANK LIMITED	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	25,869,565.00	21,313,600.00	12,500,672.00	10,218,414.00	7,578,764.00	15,496,203.00
Earnings Before Interest and Tax	5,009,571.00	4,517,967.00	3,604,948.00	2,608,392.00	1,526,793.00	3,453,534.20
Liquid Assets	18,093,150.00	17,478,232.00	7,500,288.00	5,074,031.00	4,332,080.00	10,495,556.20
Total Assets	121,062,739.00	108,348,593.00	78,984,005.00	59,013,922.00	47,558,241.00	82,993,500.00
Express Kenya Limited	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
Total Net Assets=Capital Employed	319,339.00	334,118.00	357,319.00	781,758.00	802,366.00	518,980.00
Earnings Before Interest and Tax	-1,695.00	-13236.00	-222,355.00	-14869.00	25916.00	-45,247.80
Liquid Assets	103,198.00	63,985.00	137,663.00	179,082.00	153,785.00	127,542.60
Total Assets	480,525.00	49,5609.00	766,798.00	1,341,699.00	1,304,116.00	877,749.40
Kenya Airways Limited						
Total Net Assets=Capital Employed	71,829,000.00	53,676,000.00	56,503,000.	52,683,000.00	54,257,000.00	57,789,600.00
Earnings Before Interest and Tax	-10,826,000.00	2,146,000.00	5,002,000.00	2,671,000.00	-5,664,000.00	-1,334,200.00
Liquid Assets	28,608,000.00	21,833,000.00	23,617,000.00	17,860,000.00	19,709,000.00	22,325,400.00
Total Assets	122,670,000.00	77,432,000.00	78,712,000.00	73,263,000.00	75,979,000.00	85,611,200.00
Longhorn Kenya Ltd						
Total Net Assets=Capital Employed	385,866.00	264,585.00	411,405.00	322,637.00	283,978.00	333,694.20
Earnings Before Interest and Tax	151,327.00	-25,949.00	213,075.00	27,403.00	32,147.00	79,600.60
Liquid Assets	484,324.00	444,044.00	526,934.00	379,942.00	300,481.00	427,145.00
Total Assets	685,019.00	661,675.00	709,653.00	523,000.00	431,357.00	602,40.80

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Nation Media Group Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	4737.90	4031.50	3324.20	2523.70	1996.20	3322.70
Earnings Before Interest and Tax	3602.40	3534.60	2823.00	2148.30	1667.80	2755.22
Liquid Assets	7854.30	7248.20	5855.10	5076.80	3765.60	5960.00
Total Assets	11444.20	10677.40	8816.30	7975.20	6571.90	9097.00
Scangroup Limited						
Total Net Assets=Capital Employed	8597963.00	5206166.00	4692339.00	3768948.00	2377842.00	4928651.60
Earnings Before Interest and Tax	1038416.00	1095060.00	1280100.00	838396.00	544100.00	959214.40
Liquid Assets	10720755.00	7346585.00	7778587.00	7117892.00	3213445.00	7235452.80
Total Assets	12949665.00	8361645.00	8489938.00	8009431.00	3933148.00	8348765.40
Standard Group Limited						
Total Net Assets=Capital Employed	2715111.00	2382845.00	2317738.00	2270328.00	2153000.00	2367804.40
Earnings Before Interest and Tax	300680.00	265364.00	232097.00	453650.00	376493.00	325656.80
Liquid Assets	1643577.00	1248272.00	1287683.00	1369287.00	1081798.00	1326123.40
Total Assets	4136762.00	3501548.00	3512257.00	3306000.00	3006966.00	3492706.60
TPS Eastern Africa Limited (Serena Hotels)						
Total Net Assets=Capital Employed	13994188.00	11438115.00	11516544.00	10265172.00	6008161.00	10644436.00
Earnings Before Interest and Tax	973248.00	973248.00	853133.00	692933.00	520002.00	802512.80
Liquid Assets	2374820.00	2374820.00	2414929.00	2335982.00	1522281.00	2204566.40
Total Assets	16239879.00	13484076.00	13131840.00	11923137.00	6996196.00	12355025.60

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
AVERAGE	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	10940926.99					
Earnings Before Interest and Tax	112898.86					
Liquid Assets	4807455.74					
Total Assets	15899526.40					
ARM CEMENT LIMITED						
Total Net Assets=Capital Employed						
Earnings Before Interest and Tax	2000060.00	1790296.00	1362912.00	1112962.00	948714.00	1442988.80
Liquid Assets	6848562.00	7936410.00	3723221.00	4240062.00	3362746.00	5222200.20
Total Assets						
BAMBURI CEMENT COMPANY LTD						
Total Net Assets=Capital Employed	64014000.00	36027000.00	28405000.00	25842000.00	27168000.00	36291200.00
Earnings Before Interest and Tax	5516000.00	7176000.00	8466000.00	7564000.00	9596000.00	7663600.00
Liquid Assets	43016000.00	16462000.00	13356000.00	12863000.00	12773000.00	19694000.00
Total Assets	69995000.00	43038000.00	33502000.00	33306000.00	32112000.00	42390600.00
Crown Paints Kenya Limited						
Total Net Assets=Capital Employed	1376636.00	1223554.00	1143354.00	980556.00	934803.00	1131780.60
Earnings Before Interest and Tax	333442.00	224170.00	200539.00	169480.00	139818.00	213489.80
Liquid Assets	2167353.00	1589244.00	1569315.00	1480069.00	1326166.00	1626429.40
Total Assets	2945434.00	2258263.00	2215352.00	1972337.00	1858452.00	2249967.60

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
EAST AFRICAN CABLES LIMITED	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	4063157.00	3716416.00	2918720.00	5917807.00	2296299.00	3782479.80
Earnings Before Interest and Tax	636664.00	809323.00	576901.00	324864.00	603969.00	590344.20
Liquid Assets	3583184.00	3031439.00	2407504.00	1795686.00	1699156.00	2503393.80
Total Assets	6809265.00	6248642.00	4993032.00	4518445.00	3543383.00	5222553.40
East African Portland Cement Company						
Total Net Assets=Capital Employed	12814225.00	11577617.00	15541312.00	11853915.00	1052571.00	10567928.00
Earnings Before Interest and Tax	1419478.00	-1032914.00	-119059.00	-338571.00	1881678.00	362122.40
Liquid Assets	3602063.00	2456031.00	3082332.00	2911680.00	3131045.00	3036630.20
Total Assets	16133703.00	13976795.00	13441133.00	12037565.00	12035963.00	13525031.80
AVERAGE						
Total Net Assets=Capital Employed	12943347.10					
Earnings Before Interest and Tax	2054509.04					
Liquid Assets	6416530.72					
Total Assets	15847038.20					
KenolKobil Limited						
Total Net Assets=Capital Employed	7382919	7343350	13180127	11493502	10142149	9908409.4
Earnings Before Interest and Tax	2235677	-6613479	6346346	3380423	206553	1111104
Liquid Assets	19,381,669	24,540,381	40,145,862	26,013,480	25,124,066	27041091.6
Total Assets	28,121,673	32,684,166	45,974,304	30,372,909	29,435,336	33317677.6

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Kenya Electricity Generating Company (Kengen)	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	171,000,654	148,143,917	149,736,695	143,597,070	107,077,447	143,911,156.6
Earnings Before Interest and Tax	7,093,875	7,017,498	5,648,259	3,226,444	5,312,599	5,659,735
Liquid Assets	25,127,810	22,288,065	19,538,966	32,849,387	12,869,679	22,534,781.4
Total Assets	188,673,282	163,144,873	160,993,223	150,566,859	112,945,160	155,264,679.4
The Kenya Power & Lighting Co. Ltd						
Total Net Assets=Capital Employed						
Earnings Before Interest and Tax	6,424,340	8,506,693	6,254,751	5,649,462	4,782,433	6,323,535.8
Liquid Assets						
Total Assets	177,157,755	134,131,983	121,171,515	85,025,890	70,648,425	117,627,113.6
Total Kenya Ltd						
Total Net Assets=Capital Employed	16,496,088	15,047,441	12,215,402	13284778	12,940,191	13,996,780
Earnings Before Interest and Tax	2,084,517	-64,301	57,850	1,388,425	733,699	840,038
Liquid Assets	30,004,596	23,306,880	25,287,531	19,972,264	20,790,670	23,872,388.2
Total Assets	39,984,165	32,980,604	35,198,166	30,375,677	31,528,196	34,013,361.6
Britam						
Total Net Assets=Capital Employed						
Earnings Before Interest and Tax	3,196,161.00	2,849,406	-1,724,086			1,440,493.667
Liquid Assets						,
Total Assets	46,902,578	35,820,165	25,639,244			36120,662.33

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
CIC Insurance Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	16,251,649	13,545,779	10,468,321	5,620,062	3,196,782	9,816,518.6
Earnings Before Interest and Tax	1,645,874	1,649,591	787,214	605,324	277,726	993,145.8
Liquid Assets	4,102,153	4,192,786	3,126,382	2,223,337	825,585	2,894,048.6
Total Assets	17,076,971	14,069,551	11,120,796	6,567,549	3,490,495	10,465,072.4
Jubilee Holdings Limited						
Total Net Assets=Capital Employed						
Earnings Before Interest and Tax	3,198,817	2,741,240	2,193,828	2,113,696	1,162,148	2,281,945.8
Liquid Assets	13,891,080	10,243,752	8,390,496	5,418,889	4,276,752	8,444,193.8
Total Assets	61,159,185	47,257,540	38,039,832	30,691,382	23,736,372	40,176,862.2
Kenya Reinsurance Corporation Ltd						
Total Net Assets=Capital Employed	27,704,051	14,520,955	18,855,640	17,005,674	14,828,449	18,582,953.8
Earnings Before Interest and Tax	3,268,803	2,944,635	2,036,777	1,660,016	1,463,862	2,274,818.6
Liquid Assets	4,415,833	4,458,604	3,857,462	2,942,284	1172,,305	3,369,297.6
Total Assets	28,222,587	23,787,957	19,096,441	17,240,929	15,000,633	20,669,709.4

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Liberty Kenya Holdings Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	5,464,882	5,421,591	4,174,597			5020356.667
Earnings Before Interest and Tax						
Liquid Assets						
Total Assets	31,452,190	27,390,346	24,293,533			27,712,023
Pan Africa Insurance Company Ltd						
Total Net Assets=Capital Employed	20,071,193	15,644,286	11,437,404	9,825,584	7,070,616	12,809,816.6
Earnings Before Interest and Tax	1,516,444	834,646	552,435	665,200	173,647	748,474.4
Liquid Assets	4,688,097	4,453,009	3,040,998	1,648,719	911,802	2,948,525
Total Assets	21,157,507	16,473,522	11,513,857	10,671,621	7,680,518	13,499,405
AVERAGE						
Total Net Assets=Capital Employed	11,557,411					
Earnings Before Interest and Tax	1,289,813					
Liquid Assets	4,414,016					
Total Assets	24,773,955.72					
Centum Investment Company (ICDCI) Ltd						
Total Net Assets=Capital Employed	29,386,307	18,942,298	11,562,587	12,301,576	8,255,971	16,089,747.8
Earnings Before Interest and Tax	4,480,807	3,648,736	1,596,547	2,449,126	1,127,730	2,660,589.2
Liquid Assets	1,915,595	1,762,594	358,489	246,916	502,490	957,216.8
Total Assets	29,597,220	18,961,552	11,567,701	12,301,576	8,255,971	16,136,804

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Olympia Capital Holdings Ltd	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	614,529	710,353	748,448	1,562,275	1,636,479	1,054,416.8
Earnings Before Interest and Tax	61,125	28,858	54,240	53,806	26,839	44,973.6
Liquid Assets	222,083	391,288	378,674	692,789	730,355	483,037.8
Total Assets	808,599	974,120	1,074,236	1,867,621	1,897,407	1,324,396.6
Transcentury Limited						
Total Net Assets=Capital Employed	17,933,144	15,999,604	14,698,418	8,664,972	6,686,390	12,796,505.6
Earnings Before Interest and Tax	1,535,049	1,969,432	1,618,063	974,271	796,069	1,378,576.8
Liquid Assets	8,784,234	7,509,767	9,460,388	4,094,701	3,693,959	6,708,609.8
Total Assets	23,840,273	21,845,754	22,424,264	11,236,478	8,733,331	17,616,020
AVERAGE						
Total Net Assets=Capital Employed	9,980,223					
Earnings Before Interest and Tax	1,361,380					
Liquid Assets	2,716,288					
Total Assets	11,692,406.87					

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Boc Kenya Ltd	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	2089082.00	1466312.00	1358013.00	1617796.00	1620877.00	1630416.00
Earnings Before Interest and Tax	308392.00	286692.00	214948.00	114685.00	231682.00	231279.80
Liquid Assets	1211504.00	1087971.00	890082.00	996911.00	970458.00	1031385.20
Total Assets	2633093.00	1989541.00	1816803.00	2019810.00	1988401.00	2089529.60
British American Tobacco Kenya Limited						
Total Net Assets=Capital Employed	10204821.00	9123815.00	8409916.00	7014908.00	6219531.00	8194598.20
Earnings Before Interest and Tax	5771159.00	5104229.00	4662416.00	2939519.00	2221219.00	4139708.40
Liquid Assets	8518272.00	7129828.00	6979714.00	4804289.00	4244326.00	6335285.80
Total Assets	16985923.00	15176495.00	13750545.00	78121561.00	10553206.00	26917546.00
Carbacid Investments Limited						
Total Net Assets=Capital Employed	2115982.00	1862650.00	1694287.00	1445608.00	1309831.00	1685671.60
Earnings Before Interest and Tax	634686.00	535444.00	374210.00	438041.00	367027.00	469881.60
Liquid Assets	892067.00	639388.00	404113.00	385105.00	707107.00	605556.00
Total Assets	2204399.00	2012816.00	1739985.00	1512166.00	1376380.00	1769149.20
East African Breweries Limited						
Total Net Assets=Capital Employed	31949207.00	32100534.00	34010178.00	26534050.00	25114697.00	29941733.20
Earnings Before Interest and Tax	15173576.00	19815586.00	12531145.00	12758452.00	11568909.00	14369533.60
Liquid Assets	18593102.00	18057773.00	13855244.00	17358873.00	15948710.00	16762740.40
Total Assets	58556052.00	54584316.00	49519364.00	43892923.00	34546993.00	48219929.60

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Eveready East Africa Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	496,633.00	454,965.00	358,481.00	526,991.00	1,525,848.00	672,583.60
Earnings Before Interest and Tax	102,393.00	68,097.00	-43,707.00	72,633.00	68,232.00	53,529.60
Liquid Assets	683,971.00	876,043.00	733,708.00	943,397.00	795,254.00	806,474.60
Total Assets	940,652.00	1,150,729.00	1,016,908.00	1,195,824.00	997,672.00	1,060,357.00
Mumias Sugar Company Ltd						
Total Net Assets=Capital Employed	18,739,620.00	21,679,458.00	19,965,708.00	14,831,766.00	13,715,376.00	17,786,385.60
Earnings Before Interest and Tax	-2,235,999.00	1,764,029.00	2,646,575.00	2,179,874.00	1,193,161.00	1,109,528.00
Liquid Assets	7,059,940.00	7,171,360.00	6,511,659.00	6,495,834.00	5,111,932.00	6,470,145.00
Total Assets	27,148,393.00	27,400,113.00	22,927,399.00	18,081,787.00	17,475,715.00	22,606,681.40
Unga Group Limited						
Total Net Assets=Capital Employed	5,150,063.00	4,442,306.00	4,090,101.00	3,720,057.00	3,480,529.00	4,176,611.20
Earnings Before Interest and Tax						
Liquid Assets	5,835,732.00	4,644,891.00	4,086,617.00	3,419,837.00	3,832,857.00	4,363,986.80
Total Assets	8,316,927.00	6,410,259.00	5,708,897.00	5,064,420.00	5,565,541.00	6,213,208.80
AVERAGE						
Total Net Assets=Capital Employed	9,155,428.49					
Earnings Before Interest and Tax	3,395,576.83					
Liquid Assets	5,196,510.54					
Total Assets	15,553,771.66					

Capital Employed = Total Assets – Current Liabilities						
	2013	**2012**	**2011**	**2010**	**2009**	**Mean**
Safaricom Limited	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**	**Kshs '000'**
Total Net Assets=Capital Employed	92,265,128	84,283,777	79,737,036	70,300,880	55,921,660	76,501,696.2
Earnings Before Interest and Tax	28,289,814	21,025,680	20,269,146	23,407,924	16,317,715	21,862,055.8
Liquid Assets	25,356,024	21,194,195	21,701,296	22,570,645	17,502,526	21,664,937.2
Total Assets	128,856,157	121,899,677	113,854,762	104,120,850	91,682,324	112,082,754
HomeAfrica						
Total Net Assets=Capital Employed	479,201,205	507,628,035				493,414,620
Earnings Before Interest and Tax	193,338,309	292,561,017				242,949,663
Liquid Assets	282,137,362	237,353,303				259,745,332.5
Total Assets	740,792,581	692,351,289				716,571,935
AVERAGE						
Total Net Assets=Capital Employed	284,958,158					
Earnings Before Interest and Tax	132,405,859					
Liquid Assets	140,705,135					
Total Assets	414,327,344.50					

APPENDIX III: FREE CASHFLOWS

	2008	2009	2010	2011	2012	2013
	000'	000'	000'	000'	000'	000'
Access Kenya						
Net Cash Flow from Operations		265,686.00	445,378.00	319,823.00	650,752.00	
Fixed Assets	508,302.00	1,240,023.00	1,388,108.00	1,404,733.00	1,489,783.00	
Capital Expenditure		731,721.00	148,085.00	16,625.00	85,050.00	
Free Cash Flow		**(466,035.00)**	**297,293.00**	**303,198.00**	**565,702.00**	
Athi River Mining						
Net Cash Flow from Operations		558,905.00	803,586.00	2,038,584.00	414,631.00	2,155,125
Fixed Asset	4,372,067.00	8,688,161.00	12,189,267.00	16,442,852.00	18,622,678.00	22,442,306
Capital Expenditure		4,316,094.00	3,501,106.00	4,253,585.00	2,179,826.00	3,819,628.00
Free Cash Flow		**(3,757,189.00)**	**(2,697,520.00)**	**(2,215,001.00)**	**(1,765,195.00)**	**(1,664,503.00)**
Bamburi Cement						
Net Cash Flow from Operations		8,962,000.00	8,735,000.00	5,680,000.00	7,461,000.00	5,182,000
Fixed Asset	10,267,000.00	11,847,000.00	17,833,000.00	8,585,000.00	14,935,000.00	25,651,000
Capital Expenditure		1,580,000.00	5,986,000.00	(9,248,000.00)	6,350,000.00	10,716,000.00
Free Cash Flow		**7,382,000.00**	**2,749,000.00**	**14,928,000.00**	**1,111,000.00**	**(5,534,000.00)**
Barclays bank						
Net Cash Flow from Operations		3,823,000.00	1,611,000.00	10,219,000.00	8,969,000.00	10,089,000
Fixed Asset	4,012,000.00	5,921,000.00	3,244,000.00	3,056,000.00	2,667,000.00	2,786,000
Capital Expenditure		1,909,000.00	(2,677,000.00)	(188,000.00)	(389,000.00)	119,000.00
Free Cash Flow		**1,914,000.00**	**4,288,000.00**	**10,407,000.00**	**9,358,000.00**	
BAT						
Net Cash Flow from Operations		3,878,000.00	4,490,000.00	3,868,818.00	4,004,450.00	
Fixed Assets		3,010,000.00	3,117,000.00	2,700,000.00	2,900,000.00	
Capital Expenditure						
Free Cash Flow		**3,878,000.00**	**4,490,000.00**	**3,868,818.00**	**4,004,450.00**	-
Car & General						
Net Cash Flow from Operations		(154,713.00)	95,178.00	76,574.00	280,516.00	95,145
Fixed Asset				644,616.00	677,998.00	776,042

	359,846.00	401,643.00	506,449.00			
Capital Expenditure						
Free Cash Flow		**(154,713.00)**	**95,178.00**	**76,574.00**	**280,516.00**	**95,145.00**
Carbacid						
Net Cash Flow from Operations		305,976.00	351,363.00	295,753.00	572,224.00	456,918
Fixed Asset	518,417.00	537,655.00	735,647.00	867,409.00	905,033.00	819,391
Capital Expenditure						
Free Cash Flow		**305,976.00**	**351,363.00**	**295,753.00**	**572,224.00**	**456,918.00**
Centum						
Net Cash Flow from Operations		349,952.00	442,041.00	256,711.00	(125,089.00)	-403,991
Fixed Assets	4,150.00	3,428.00	11,347.00	26,813.00	26,467.00	43,999
Capital Expenditure						
Free Cash Flow		**349,952.00**	**442,041.00**	**256,711.00**	**(125,089.00)**	**(403,991.00)**
CMC Holding						
Net Cash Flow from Operations		(1,255,371.00)	(301,671.00)	577,312.00	27,732.00	
Fixed Asset	1,322,186.00	1,572,004.00	1,552,569.00	1,736,268.00	2,503,747.00	
Capital Expenditure						
Free Cash Flow		**(1,255,371.00)**	**(301,671.00)**	**577,312.00**	**27,732.00**	**-**
Crown Berger						
Net Cash Flow from Operations		411082	263552	122,504	283,635	-76,551
Fixed Asset	513,507	496648	464451	625,116	639,454	736,506
Capital Expenditure						
Free Cash Flow		**411,082.00**	**263,552.00**	**122,504.00**	**283,635.00**	**(76,551.00)**
Diamond Trust						
Net Cash Flow from Operations		1,821,407	1,252,699	5,222,906	(3,389,112)	597,170
Fixed Asset	1,049,289.00	1,606,902	1,510,816	2,013,943	2,770,067	4,879,246
Capital Expenditure						
Free Cash Flow		**1,821,407.00**	**1,252,699.00**	**5,222,906.00**	**(3,389,112.00)**	**597,170.00**
E.A Portlands						
Net Cash Flow from Operations		1,881,010	444,839	603,628	(209,211)	485,561.00
Fixed Asset	6,305,071	7,359,558	6,645,271	7,657,923	7,463,528	8,149,312.00

Capital Expenditure						
Free Cash Flow		**1,881,010.00**	**444,839.00**	**603,628.00**	**(209,211.00)**	**485,561.00**
E.A Cables						
Net Cash Flow from Operations		429,397	356,429	299,916	581,274	-381,350
Fixed Asset	888,931	1,609,056	2,376,178	2,244,332	2,778,127	2,793,123
Capital Expenditure						
Free Cash Flow		**429,397.00**	**356,429.00**	**299,916.00**	**581,274.00**	**(381,350.00)**
E.A Breweries						
Net Cash Flow from Operations		9,588,686	12,202,701	8,877,695	6,834,555	8,302,865
Fixed Assets	13,755,393	15,396,750	17,137,468	28,304,026	31,246,602	33,715,088
Capital Expenditure						
Free Cash Flow		**9,588,686.00**	**12,202,701.00**	**8,877,695.00**	**6,834,555.00**	**8,302,865.00**
Equity Bank						
Net Cash Flow from Operations		4,993,000	29,390,000.00	15,105,000.00	17,269,000.00	11,344,000
Fixed Asset		6442000	6970000	7,592,000	9,072,000	9,796,000
Capital Expenditure						
Free Cash Flow		**4,993,000.00**	**29,390,000.00**	**15,105,000.00**	**17,269,000.00**	**11,344,000.00**
Eveready						
Net Cash Flow from Operations		108523	-73,829	31,780	-54,064	191,384
Fixed Asset	180870	198660	225,018	201,286	182,428	185,904
Capital Expenditure		17790	26,358	-23,732	-18,858	
Free Cash Flow		**90733**	**-100187**	**55512**	**-35206**	
Express Kenya						
Net Cash Flow from Operations			135,785	-42,388	-4,059	16,716
Fixed Asset	640365	702118	751,616	629109	431,623	
Capital Expenditure						
Free Cash Flow		**-**	**135,785.00**	**(42,388.00)**	**(4,059.00)**	**16,716.00**
Jubilee						
Net Cash Flow from Operations		1,419,053.00	1,368,839.00	2,544,170	2,420,890	
Fixed Asset	44,737	50,277	61,168	91,921	134,517	
Capital Expenditure						
Free Cash Flow		**1,419,053.00**	**1,368,839.00**	**2,544,170.00**	**2,420,890.00**	**-**
Kakuzi Ltd						

Net Cash Flow from Operations		660730	385,805	741,266	264,612	
Fixed Asset	633494	604446	613,415	630,427	552,635	
Capital Expenditure						
Free Cash Flow		**660,730.00**	**385,805.00**	**741,266.00**	**264,612.00**	-
Ken Gen						
Net Cash Flow from Operations		4,260,828	1,582,229	4,510,758	3,050,306	
Fixed Asset	91,822,390	92,699,405	102,230,784	116,786,429	120,664,699	
Capital Expenditure						
Free Cash Flow		**4,260,828.00**	**1,582,229.00**	**4,510,758.00**	**3,050,306.00**	-
Kenol						
Net Cash Flow from Operations		4,149,750	9,698,939	(851,521)	2,956,065	
Fixed Asset	4,863,638	4,512,380	4,595,011	3,778,098	4,284,409	
Capital Expenditure						
Free Cash Flow		**4,149,750.00**	**9,698,939.00**	**(851,521.00)**	**2,956,065.00**	-
Kenya Re						
Net Cash Flow from Operations		645045	1738393	1,169,186	839,270	
Fixed Asset	24481	27910	86277	87,196	80,511	
Capital Expenditure						
Free Cash Flow		**645,045.00**	**1,738,393.00**	**1,169,186.00**	**839,270.00**	-
KPLC						
Net Cash Flow from Operations		15,180,427	11,861,409	14,633,250	13,174,166	
Fixed Asset	38,925,317	49,974,859	60,471,502	84,590,569	105,671,370	
Capital Expenditure						
Free Cash Flow		**15,180,427.00**	**11,861,409.00**	**14,633,250.00**	**13,174,166.00**	-
Kenya Airways						
Net Cash Flow from Operations		3,411,000	6,479,000	9,214,000	4,378,000	-537000
Fixed Assets		51,051,000	49,856,000	50,794,000	49,373,000	71,502,000
Capital Expenditure						
Free Cash Flow		**3,411,000.00**	**6,479,000.00**	**9,214,000.00**	**4,378,000.00**	**(537,000.00)**
Mumias						
Net Cash Flow from Operations		1,563,224	3,004,318	2,300,182	2,114,552	932,444
Fixed Asset	9,279,504	12,098,452	11,585,953	16,415,740	19,810,560	19,615,082
Capital Expenditure						

Free Cash Flow		**1,563,224.00**	**3,004,318.00**	**2,300,182.00**	**2,114,552.00**	**932,444.00**
Nation Media						
Net Cash Flow from Operations		1,519,400.00	2,449,200.00	1,713,900.00	3,276,600.00	2,244,900.00
Fixed Asset	1,819,300.00	1,882,100.00	1,893,300.00	1,945,300.00	2,280,800.00	2,234,600.00
Capital Expenditure						
Free Cash Flow		**1,519,400.00**	**2,449,200.00**	**1,713,900.00**	**3,276,600.00**	**2,244,900.00**
Pan Africa						
Net Cash Flow from Operations		851,309	1,349,973	1,009,130	3,111,093	2,665,915
Fixed Asset		59,973	65,401	80,156	96,646	114,749
Capital Expenditure						
Free Cash Flow		**851,309.00**	**1,349,973.00**	**1,009,130.00**	**3,111,093.00**	**2,665,915.00**
Rea Vipingo						
Net Cash Flow from Operations		214,521	51,571	269,615	332,658	482,874
Fixed Asset	323,960	444,748	624,147	753,404	806,444	833,764
Capital Expenditure						
Free Cash Flow		**214,521.00**	**51,571.00**	**269,615.00**	**332,658.00**	**482,874.00**
Safari com						
Net Cash Flow from Operations		22,930,515	24,045,619	31,001,872	33,236,074	39,130,745
Fixed Asset	56,480,489	69,035,111	73,090,172	83,022,590	91,659,218	95,296,398
Capital Expenditure						
Free Cash Flow		**22,930,515.00**	**24,045,619.00**	**31,001,872.00**	**33,236,074.00**	**39,130,745.00**
Sameer Africa						
Net Cash Flow from Operations		337,656	104,994	-78,239	114,419	233,650
Fixed Asset		556,860	563,155	469,069	382,889	435,967
Capital Expenditure						
Free Cash Flow		**337,656.00**	**104,994.00**	**(78,239.00)**	**114,419.00**	**233,650.00**
Sasini						
Net Cash Flow from Operations		353,088	404,445	497,029	329,658	188,661
Fixed Assets	1,941,955	2,435,962	2,433,720	2,402,791	2,411,972	2,343,387
Capital Expenditure						
Free Cash Flow		**353,088.00**	**404,445.00**	**497,029.00**	**329,658.00**	**188,661.00**
Total						
Net Cash Flow from		377,494	6,011,576	-2,005,741	6,700,983	7,857,234

Operations						
Fixed Asset	2,023,560	3,443,843	8,978,227	8,450,952	8,168,038	8,358,986
Capital Expenditure						
Free Cash Flow		**377,494.00**	**6,011,576.00**	**(2,005,741.00)**	**6,700,983.00**	**7,857,234.00**
TPS Serena						
Net Cash Flow from Operations		460,364	1,249,881	188,671	1,179,752	948,973
Fixed Asset	4,015,288	4,249,482	8,248,664	8,829,042	9,090,486	11,295,582
Capital Expenditure						
Free Cash Flow		**460,364.00**	**1,249,881.00**	**188,671.00**	**1,179,752.00**	**948,973.00**