THE EFFECTS OF LEASE FINANCING ON THE FINANCIAL PERFORMANCE OF COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE

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DECLARATION

I, Michael Kibuu, declare that this project is my original work and has not been published and/or submitted for any award in any other university.

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D63/72306/2014

This Project report has been presented with my approval as the University Supervisor

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DEDICATION

This project is dedicated to my family for their words of encouragement, for their push, for teaching me to be patient, persistent and that a task can only be accomplished if it is done one step at a time.

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LIST OF ABBREVIATIONS

ANOVA: Analysis of Variance

CMA: Capital Market Authority

GDP: Gross Domestic Products

IAS: International Accounting Standards

IFC: International Finance Corporation

KCC: Kenya Co-operative Creameries

NPV: Net Present Value

NSE: Nairobi Securities Exchange

PPE: Plant, Property and Equipment

ROA: Return on Assets

SPSS: Statistical Package for Social Science

UK: United Kingdom

ABSTRACT

The economic benefits of leasing can be derived from the firm's choice of leasing relative to borrowing and acquiring the asset. Lease financing is one of the alternatives to straight-up purchasing if a firm is seeking the means to obtain necessary business equipment and supplies that have the possibility of endangering the firm's monetary flow and stockpile. Leasing is an attractive financing instrument for lessors because it allows them not only to avoid the usual credit risks but also to pass the property and price risks involved in capital goods on to the lessee. The objective of the study was to determine the effects of lease financing on the financial performance of companies listed in the Nairobi Securities Exchange. This study adopted descriptive research design. The population of the study was all the 64 listed companies in the NSE where all the companies were not using lease financing, but data for only 33 firms which were using lease financing was available for the period under study. Secondary data was collected for the firms for the period 2010 – 2014 from the annual financial reports. The measure of financial performance was taken as the dependent variables while amount of lease finance, size and liquidity was taken as the independent variable. The collected secondary data was analyzed using Statistical Package for Social Science (SPSS) version 20. A regression analysis was conducted on the data set to determine the effect of lease finance on the ROA for the firms listed at the NSE. From the regression results, lease financing and liquidity had positive effects on ROA while size had negative effects on ROA. Lease financing effects were however insignificant at 5% level of confidence, while liquidity and size effects were significant at. 5% level of confidence. The R^2 showed that the model explained 12.1% of variance in ROA. The study concludes that there is a positive association between lease financing and Return on Assets. Though the relationship could be positive, it failed the significance tests at all the acceptable levels of significance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations exist in competitive environment and they continuously seek ways to take lead in their business activities, also the quest for good financial management strategy is not contestable because every business needs a good and dependable cash flow to grow and this has necessitated the companies to seek for ways of reducing cost of operations especially when it comes to asset acquisition. Organizations have a lot of equipment and machineries to acquire which may not be really necessary to be bought but lease in order to have adequate capital for their operations. Osaze (1993) defines leasing as a contract between the owner of an asset, the lessor and the prospective user of that asset, the lessee.

Over the years, the concept of leasing has been an element of serious decision for Corporate organizations globally and it has been argued that leasing contribute to the growth of businesses. Lease financing is one of the alternatives to straight-up purchasing if a firm is seeking the means to obtain necessary business equipment and supplies that have the possibility of endangering the firm's monetary flow and stockpile. Therefore it is a financing decision. Corporate managers should examine the cost of both: Leasing and borrowing in order to select the cheaper method of financing which increase the market value of the firm (Mohammad & Shamsi, 2008).

Leasing is referred to as asset based financing (Burgress, 2002). The leasing decisions concerns whether the firm should lease equipment, or borrows money and buy the equipment. Leasing is focused on the lessee's ability to generate cash flows from the

business operations to service the lease payments, as the lessor retains legal ownership of the asset(Bierman,2005). Hence, leasing separates the legal ownership of an asset from its economic use. Ownership of the asset may or may not pass to the customer at the end of the lease contract. Contracts, where legal ownership of the asset passes directly to the customer at the start of the agreement, are not considered to be leases.

1.1.1 Lease Financing

Osaze (1993) defines leasing as a contract between the owner of an asset, the lessor and the prospective user of that asset, the lessee, giving the lessee possession and use of the asset on payment of rentals over a period of time. In other words lease is a contractual agreement which represents the lease between the two parties, the lessee and the lessor, and gives the contract to the lessee the right to use certain assets for a specific time period owned by the lessor in return for periodic payments. According to the Accounting Standard IAS 17 “a lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Leasing enables enterprises to invest in buildings or machinery and equipment without having to use capital or debt. This alleviates the problem that demand for new capital goods which may not be met, particularly during an upturn, because enterprises eager to invest experience financing and collateralization difficulties. Leasing is an attractive financing instrument for lessors because it allows them not only to avoid the usual credit risks but also to pass the property and price risks involved in capital goods on to the lessee. The reasons why the parties opt for leasing are not limited to purely financing and

risk aspects, however; they also take organizational and marketing aspects into account. According to Stulz and Johnson (1985), the non-cancellable long -term leases help mitigate the underinvestment problem due to debt overhang identified by Myers (1977). The underinvestment problem is mitigated because of the legal standing of leases to all outstanding fixed claims.

Leases take several different forms, the most important of which are sale and leaseback, operating leases and straight financial or capital leases. While these types of leasing differ in their legal, tax and accounting treatments, they are all viewed, in the theory of finance, as part of the financing decisions of the firm. The economic benefits of leasing can be derived from the firm's choice of leasing relative to borrowing and acquiring the asset. Other rationales for leasing include lessee's debt capacity, asset type and salvage value, conservation of working capital, ease of obtaining credit by firms with poor credit ratings, flexibility and convenience and resolution of agency conflicts. Some of the common advantages of leasing that accrues to a firm are: less costly, financing at fixed rates, protection against obsolescence, flexibility and off balance sheet financing (Gudikunst & Roberts, 1978; Krishnan & Moyer, 1994; Lasfer, 2007 and Miller & Upton, 1976).

1.1.2 Financial Performance

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. Van Horn (2005) defined financial performance as a subjective

measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2000) is used as a general measure of the overall financial health of a business.

The concept of financial performance is a controversial issue in finance due to its multidimensional meaning. In analyzing a firm's financial performance, emphasis should be made in formulating an adequate description of the concept of a financial performance which will uncover the different forms upon which firm's financial performance can be measured. Webster (2012) defines financial performance as what is accomplished. Vekataran and Varadarajan (2011) defined financial performance as, the best test of any strategy. In analogy with these definitions of performance, the financial performance of a firm will be defined as the outcome of a firm's strategy or an assessment of how well a firm has succeeded in reaching its objective.

Financial performance is one of the main aspects of each company's/organization's performance, which is commonly evaluated using financial statement analysis and financial ratios analysis. For instance, Ahmad et al. (2011a) examined the financial performance of the non-banking finance companies in Pakistan which were providing services such as investment advisory, asset management, leasing, and investment finance. They classified all considered ratios in three groups, profitability, leverage, and liquidity, and used ratio analysis to evaluate the performance.

1.1.3 Lease Financing and Financial Performance

One of the most important concepts in the financial market is the lease as an agreement in which one party gains a long-term rental agreement and another party receives a form of secured long-term debt. This means that the lessee gains a long-term contract for use of an asset and the lessor is assured of regular payments for a specified number of years. A leasing company is a financial unit which serves such services. Since leasing has a vital role in economic development and growth and also contributes a major share in the gross domestic production (GDP) by supporting the channelizing of funds Alam et al., (2011a), assessing the performance of the leasing companies is a most important issue. This is because leasing improves financial performance by influencing the cost of capital (reducing the leverage level) improves the working capital of the firm (since the untied cash can be invested in cash generating project and efficiency in utilization of the assets as it was discussed in the literature review (Tarus,1997).

Access to finance is one of the most widely discussed topics in business (Bathala & Mukherjee, 1995; Fletcher, 2005; Fundanga, 2010; Nair, 2004; World Bank, 2006). The major hindrance to development, effective domestic investment, economic growth and development and ultimately poverty reduction is access to affordable and reliable finance or credit (Adam & Hardwick, 1998; Beattie et al, 1998; Brealey & Myers, 2003). There was need, therefore, to develop other innovative financial products that would circumvent access pitfalls associated with these traditional forms of financing (FinScope,2005). One form of such financing that has the ability to emerge as an innovative form of financing is leasing finance (Westley, 2003; Droglea, Grabara & Todaran, 2011).

Leasing is based on the proposition that profits are earned through use of assets, rather than from their ownership (World Bank, 2000). It focuses on the lessees' ability to generate cash flow from business operations to service the lease payment rather than on the balance sheet or past credit history (IFC, 2009). Eisfeldt and Rampini (2009) show that leasing increases debt capacity of constrained firms, and firms lease to "preserve liquidity." Therefore, leasing is no longer just a financing tool, but it can be used by constrained firms to increase investment input capital and expand production functions. Unlike lessees, owners of real assets, who retain the residual interest, take advantages of rises in collateralized asset values to increase investment in the production capacity.

Greenwald and Stigltz (1993) noted that theoretically it does not matter whether a firm uses internal or external funds. However due to the market imperfections, firms cannot obtain external funds on the same conditions as internal funds. Therefore, the extent to which external funds are provided affect corporate investment and economic activity. However, although alternative forms of finance, like leasing, have gained considerable importance in recent years for the functioning of financial systems, particularly in emerging economies, research on these means of finance is still scarce (Moutot *et al.*, 2007).

1.1.4 Nairobi Securities Exchange

The NSE was constituted in 1954 (operating under the name the Nairobi Stock Exchange) as a voluntary association of stockbrokers registered under the Societies Act. However The Nairobi Stock Exchange (NSE) has a long history that can be traced to the 1920's when it started trading in shares while Kenya was still a British colony, and share

trading was initially conducted in an informal market, therefore there was a growing desire to have a formal market that would facilitate access to long-term capital by private enterprises and also allow commencement of floating of local registered Government loans giving birth to the constituent of Nairobi Stock Exchange in 1954 charged with the responsibility of developing the stock market and regulating trading activities.

The basic powers of the NSE are embodied in its constitutive documents, the CMA Regulations, Membership and Trading Rules and the Listing Manual. The Capital Markets Act makes no direct reference to the powers. Although the constitutive documents accord the stock exchange an extensive mandate the objects and powers conferred are exercisable subject to the provisions of the Capital Markets Act and Regulations made under the Act which render them largely ineffectual. Capital Market Authority (CMA) has a regulatory responsibility to keep surveillance of firms listed in NSE with regards to capital, liquidity and other aspects with overall aim of ensuring financial stability of these firms. Administratively, the securities markets in Kenya fall under the powerful Ministry of Finance (Treasury) which is in turn accountable to the Parliament. Notably, the ministry exercises overwhelming influence over the CMA which could adversely affect its capacity to discharge its statutory mandate.

The leasing industry in Kenya has experienced phenomenal growth since 2001 (Leasing Association of Kenya, 2007). Given the large financial scale of corporate leasing worldwide and indeed in Kenya, the corporate sector is the main driver of leasing with the international corporations as the pace setters. Listed companies at NSE such as East African Breweries and Bamburi among others have joined the fray leading to a

significant expansion of the leasing market. NSE facilitates the mobilization of capital for development and provides savers in Kenya with an alternative saving tool. Funds that would otherwise have been consumed or deposited in bank accounts are redirected to promote growth in various sectors of the economy as people invest in securities. Economic growth is promoted through improved efficiency in mobilization of savings as capital is allocated to investments that bring the most value to the economy. The business model adopted by most of the listed companies at NSE as an expansion strategy is leasing. According to Ramamurthy (2007) this model was adopted by Nakumatt supermarket chain. This strategy is credited by analysts to have set apart Nakumatt from the struggling Uchumi super market which used buy- and- own model.

Nairobi Securities Exchange (NSE) has a double responsibility for development and regulation of the market operations to ensure efficient trading. For an efficient stock exchange, the companies listed in NSE are expected to be financially health so as to ensure economic growth of a country. The NSE has been performing poorly in recent years. The performance of the stock market indicates that the market has not managed to make significant contribution to financing economic growth (Ngugi, Amanja & Maana, 2009). While there are about 64 companies listed in NSE, not all of them are in a financially sound position. Although at the point of listing, these listed companies must meet the listing requirement of NSE, given time, the company's financial position and business direction can change for the better or for the worse. This has been evidenced by failure of Kenyan firms such as KCC, Uchumi Supermarkets, A Baumann and Company, Bulk medical limited, Nyaga stock brokers.

1.2 Research Problem

The economic benefits of leasing can be derived from the firm's choice of leasing relative to borrowing and acquiring the asset. The arguments advanced on the effects of leasing on the performance of the firm as opposed to purchase of assets includes the tax differential effects, Miller and Upton (1976); and Subrahmanyam (1987), debt substitutability, Ang and Peterson (1984), agency costs and free cash flows, Smith and Warner (1979). Batra *et al.* (2004) identified high interest rates, lack of access to long-term capital and collateral requirements as key constraints to access to finance in Africa. According to Mehran and Taggart (1999) leasing is part of financing contract whose aim is to select a financing option that will optimize on risk and return. In pecking order theory of capital structure, leasing has first priority in external financing hence the need to study it. (Marston & Harris, 1988; Krishnan & Moyer, 1994).

The leasing industry in Kenya has experienced phenomenal growth since 2001, (Leasing Association of Kenya, 2007). As noted by, Adams and Hardwick (1998), given the large financial scale of corporate leasing worldwide and indeed in Kenya, what determines leasing decisions is an empirical question of importance that needs to be answered. Muthee (2007) noted that 70 per cent of firms in Kenya appreciated the growth of the leasing market.

While several studies have been done in developed markets (Meyer, 1977; Stulz and Johnson, 1985; Bootle, 2002; Graham et al., 1998; Ezzell and Vora, 2001; Robicheaux et al., 2008; Yan, 2002; Ushilova and Schieurann, 2011, among others) to determine the effects of lease financing on the performance of the firm, little has been done for

developing markets like Kenya. For instance Muthee (2012) established that taxes and regulatory framework were key determinants for the growth of lease finance for motor acquisition. Muumbi (2014) established that there is a positive significant relationship between lease financing and Return on Assets which looks at the ability of a company to utilize its assets to gain a net profit. Munene (2014) established that leasing had a negative but insignificant effect on ROA meaning that financial performance of listed firm in Kenya is unaffected by lease financing. Hence these differences between these findings motivate the research to pursue and determine the significant effects of lease financing on the financial performance of companies listed in the Nairobi Securities Exchange. This study sought to answer the question; what are the effects of lease finance on financial performance of the companies listed in Nairobi Securities Exchange?

1.3 Research Objectives

The objective of the study was to determine the effects of lease financing on the financial performance of companies listed in the Nairobi Securities Exchange.

1.4 Value of the Study

The study seeks to contribute to the empirical and theoretical literature on leasing versus borrowing and buy decisions, examining a range of financial, accounting, taxation, firm-specific and asset-specific characteristics affecting leasing decisions. It contributes to the understanding of lease financing by providing comprehensive up-to-date evidence of leasing decisions across the Kenya publicly quoted companies.

To the government of Kenya and policymakers, this study will provide information that can be used to form policies that can govern the use of lease financing in companies in

Kenya and protect the investors and stakeholders in companies using lease financing. The government in designing financing policies also needs to consider leasing as an alternative source of financing especially with increasing budget constraints. Further, to encourage capital formation and investment, the government should design regulations and tax structures that will boost the growth of leasing.

The empirical results generated from this study will provide decision makers with quantitative measures to evaluate the determinants that affect the financial performance of organizations in Kenya. This in turn, would allow managers, owners, and outside investors to be better informed about the factors that affect the financial performance of the organizations and how stakeholders may use these determinants to allocate their resources.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focuses on theoretical literature, general and specific literature on lease financing and financial performance. It presents a review of the relevant literature on the study area to better present the knowledge gap the study seeks to fill. Specifically, the chapter discusses the leasing theories and empirical evidence of the effects of lease financing on the financial performance on the firm.

2.2 Theoretical Review

This section introduces the theoretical review based on Modigliani-Miller framework, pecking order theory, financial contracting theory and agency costs theory and the drivers of leasing decision by companies.

2.2.1 Modigliani-Miller Theory

The corporate leasing decision was analyzed in the Modigliani-Miller framework of capital structure that usually began with invoking the assumptions of perfectly competitive capital markets with no information asymmetries and transaction costs.

Modigliani and Miller (1958) wrote a seminar paper showing that subject to some conditions, the source of financing was irrelevant in determining the value of the firm. They assumed, either explicitly or implicitly that capital markets are frictionless, individuals can borrow and lend at the risk-free rate, there are no costs to bankruptcy, corporate taxes are the only form of government levy, all cash flow streams are

perpetuities, corporate insiders and outsiders have the same information and managers always maximize shareholders wealth (i.e., no agency costs).

If these assumptions were to hold in all circumstances, then the question of whether to finance companies by either debt or equity would perhaps not pre-occupy various corporate stakeholders, including the shareholders, managers and theoreticians. Myers (2001) noted that despite the logic of the Modigliani and Miller (1958) results, financing can matter due to the factors such as existence of taxes, information asymmetry and agency costs.

Smith and Wakeman (1985) argued that, as a special case of Modigliani and Miller irrelevance proposition, in case of competitive markets with no taxes and no contracting costs, the net cash flow from the use of an asset is independent of the set of financial contracts specifying the allocation of rights to use the asset. However, in actual financial markets, both the lessee and lessor firms face a variety of market imperfections, such as: information asymmetry, agency costs, financial distress and bankruptcy costs, taxes, transaction costs, costly external financing and incomplete contracting.

2.2.2 Pecking Order Theory

Myers and Majluf (2006) demonstrate that information asymmetries may cause firms to follow a pecking order approach to financing. Due to asymmetries in the information available to managers relative to outsiders, managers may find it optimal to maintain reserve borrowing capacity and avoid external equity markets. Their arguments imply

that firms will choose retained earnings before debt and use new stock offerings only as a last resort.

The implication of the pecking order for capital structure is that individual capital structures will reflect historical profitability and growth rather than the predetermined optimal mix of debt and equity. This theory has received strong empirical support. Baskin (2002) and Toy et al., (2001) find debt ratios to be positively related to the need for funds (growth) and negatively related to the availability of internally generated funds (profitability). Previous leasing literature ignores the effects of profitability and growth on leasing from their models, resulting in potentially serious misspecification problems and makes significance tests questionable.

Within the pecking order leasing is predicted to be negatively related to profitability over time and positively related to asset growth as debt is. Although there are no generally accepted models of the determinants of lease use, most researchers agree on the importance of certain factors. One factor is the tax bracket of the lessee. Leasing allows firms with low or zero marginal tax rates to transfer unusable tax shields to taxpaying lessors in exchange for lower lease payments. Thus, tax bracket is predicted to be negatively related to leasing (Toy et al., 2001).

2.2.3 Financial Contracting Theory

Financial contracting is the theory of what kinds of deals are made between financiers and those who need financing. Also it factors in company characteristics and how they affect contracting costs and choice of leasing as a financing vehicle. The theory starts

with Modigliani-Miller theorem that an ideal environment firms are indifferent of the sources of finance.

Traditionally, the theory of financial leasing has focused on the differential tax position of the lessee and the lessor as the primary rational for leasing. The fundamental argument is that, if a firm is not in a full tax-paying position purchasing and depreciating an asset may be costly because it can use only a low capital or depreciation tax allowance (Imhoff, Robert & David, 2004). However, by leasing the asset, the lesser would claim the tax allowances, and the tax benefits could be transferred indirectly to the lessee through lower lease payments.

Mehran, Taggart and Yermack (1999) argued that a well designed financial contract can increase corporate value in atleast three ways; first contracts can transfer different forms of risks to those who can bear them cheaply. Second, contracts affect the incentives of contracting parties. They can afford positive incentives for agents to take value maximizing actions and third, it may be possible for a firm to transfer tax liabilities from heavily taxed to less taxed parties. Firms may choose a variety of financial contracts balance risk-sharing, incentives and tax considerations efficiently. These include common and preferred stock, debt with different maturity and indenture provisions, and operating and financial leases.

Financial contracting occurs when there is information asymmetry (Sharpe & Nguyen, 1995). The influence of such capital market imperfection and financing policy has been the subject of extensive analysis and yet leasing has not been studied to determine how it

fits into the equation. Leasing, in pecking order theory of capital structure, has first priority in external financing hence the need to study it (Marston & Harris 1988 and Krishnan & Moyer, 1994).

2.2.4 Agency Cost Theory

The main theoretical explanation for the relationship between the ownership structure and profitability is based on the agency theory, first formalized by (Jensen & Meckling, 1976). Agency conflicts can arise between bondholders and shareholders and/or between managers and Shareholders and can lead to asset substitution and underinvestment. Smith and Warner (1979) argue that long-term non-cancellable leases (financial or Capital leases) can help mitigate the asset substitution problem because the non-cancellable lease commits the lessee to use the leased asset over the life of the lease contract.

In the presence of risky debt in the firm's capital structure, equity holders may underinvest by giving up positive NPV investments because the project's benefits accrue to the existing debt holders and the existing debt load makes it too costly for the firm to borrow in external capital markets. This creates the underinvestment problem due to debt overhang as identified by Myers (1977). Stulz and Johnson (1985) argue that the non-cancellable long-term leases should help mitigate the underinvestment problem due to debt overhang. However, in case of short term operational leases, agency costs may also arise between lessor and lessee due to the separation of ownership from usage of asset. Since the lessees have no right to the residual value of the asset, they have no incentive to take proper care of it. This probably explains the reason why corporations lease office

facilities much more frequently than manufacturing or Research & Development (R&D) facilities.

Robicheaux et al. (2008) examines whether lease financing, used to control the agency costs of debt, is used as a substitute or complement to mechanisms such as corporate governance, managerial incentive compensation used to control agency costs of equity. They find leasing is complementary to governance and incentive compensation suggesting that firms try to control simultaneously the agency costs of debt as well as external equity.

For the purpose of the study at hand, this theory implies that lease financing brings about efficiency on the part of management of the firm, which in turn would be expected to contribute to the financial performance of the firms listed at the NSE.

2.3 Determinants of Financial Performance on Listed Firms

This section aim to assess the determinants of financial performance based on market position, size of the company, liquidity, and leverage. For a long time, financial performance has been perceived only through its ability to obtain profits. This changed over time, today the concept of performance having different meanings depending on the user perspective of financial information.

2.3.1 Introduction

Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors.

Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units. Also, more profits will mean more future investments, which will generate employment opportunities and enhance the income of people. The basic motive behind any investment, made by the corporate sector, is to earn profit, (Kyereboah-Coleman, 2007). It is among the goals of the organization to maximize shareholders' wealth and generate enough profits to continue the business and to grow further in future.

2.3.2 Market Position

Performance of the firm is affected by multiple external and internal factors (Al-Tamimi, 2010; Aburime, 2005). It is important to note here that the internal factors are firm specific while external factors can be same for all or most of the firms. A company's financial performance is directly influenced by its market position. Profitability can be decomposed into its main components: net turnover and net profit margin. Ross et al. (1996) argues that both can influence the profitability of a company one time. If a high turnover means better use of assets owned by the company and therefore better efficiency, a higher profit margin means that the entity has substantial market power.

2.3.3 Size of the Company

The size of the company can have a positive effect on financial performance because larger firms can use this advantage to get some financial benefits in business relations. Hardwick (1997) argues that there is a positive relationship between performance and size due to operating cost efficiencies through increasing output and economizing on unit of cost. Industrial organization economists such as Bain (1968) and Scherer (1980) have

argued that large firms possess monopoly power which allows them to set prices above the economic costs involved in the production of the products resulting in additional profit for the larger firms. In terms of investment performance, Adams (1996) believes that large companies are able to diversify their investment portfolios and this could reduce their business risks. Grace and Timme (1992) suggest that large companies generally outperform smaller ones because they manage to utilise economies of scale and have the resources to attract and retain managerial talent. Therefore, it is expected that performance is positively related with size of company.

2.3.4 Liquidity

Financial performance of firms is also influenced by liquidity. Liquidity refers to the ratio of current assets to current liabilities. According to Shiu (2004) companies with more liquid assets are likely to perform better as they are able to realize cash at any point of time to meet its obligation and are less exposed to liquidity risks. However, there are contrasting views with regard to performance and liquidity in relation to the agency theory. According to Pottier (1998) high liquidity could increase agency costs for owners by providing managers with incentives to misuse excess cash-flows by investing in projects with negative net present values and engaging in excessive perquisite consumption.

2.3.5 Leverage

Leverage also affects the financial performance of firms. Leverage in this study is defined as total debts divided by total assets. It shows the degree to which a business is utilizing

borrowed money. It represents the potential impact on capital and surplus of deficiencies in reserves due to financial claims (Adams & Buckle, 2000).

2.4 Empirical Review

This section introduces the empirical review based on the international studies and the local studies.

2.4.1 International Studies

There are many studies that have been conducted on lease financing globally, Peterson (1984) carried out a tobit analysis on a cross sections of about 600 firms for a period of 1976-1981 to estimate the extent and likelihood of leasing activity and debt ratios and explanatory variables. He focused on financial leasing and found that leasing is substitute to debt. Their study used leverage, size, investment opportunity and performance measure as the independent variables and the key highlights were that leverage was negatively correlated with leasing decision; size and opportunity for growth were not significant in determining leasing decision. However, the study focused on financial leasing only and was carried out in well-developed United States financial market.

Lackerath-Rovers (2006) carried out an operating lease study on 281 firms quoted on the Dutch Stock Exchange in Netherlands. The study used logit and ordinary regression on explanatory variables such as size, leverage, industry factor, performance, growth and investment opportunities, asset structure, tax structure, ownership structure and management compensation. The findings indicated that corporate leasing depended on leverage, size and performance indicating that better firms will lease less because they can access other cheaper sources of finance especially retained earnings. Ownership

structure was also an important factor determining leasing decision while tax consideration was not an important factor in determining leasing decision.

Meziane (2007) did a study on the financial drivers and implications of leasing on real estate's assets. He sampled 2,343 UK-quoted companies over the period 1989-2002, resulting in 17,862 pooled time-series and 16 cross-sectional observations. The total sample of companies was first split into leasing propensity defined as the ratio of leased assets (leasehold and operating leases on real estate) over the sum of freehold and leased real estate. The results indicated that companies that own real estate are likely to be mature, i.e. value companies, while firms that lease their real estate tend to be at growth stage. The findings were consistent with Lasfer & Levis (1998) who show that high-growth firms are more likely to lease plant and machinery. Given that these companies were likely to suffer from assets substitution problem, the results implied that leasing reduces agency conflicts. The results suggested that growth companies are less likely to find cheap borrowing to acquire their assets. Instead, they rely on leasing to finance their growth.

Kurfi (2009) sought to examine lease financing practices and corporate capital structure of selected Nigerian manufacturing firms. The study sought to determine the extent to which the firms employ lease financing as a means of digital assets acquisitions and the effect on corporate capital structure. A survey method was adopted in selecting a sample of manufacturing firms listed in the Nigerian Stock Exchange. The financial statements of the sampled manufacturing firms for ten year period (1993-2002) were analyzed and also structured questionnaires and interviews were granted to the financial managers of

the firms. The findings of the study reveal that: leasing is a veritable alternative for capital assets acquisitions and that lease constitute about 50% of their total fixed assets because most of the lease contracts are structured with provision for ultimate purchase by the lessee (the firm) after the primary lease term to finance capital assets acquisition.

Vasantha (2012) did a study on capital market frictions, leasing and investment. He collected panel data on all non-financial Standard & Poor's (S&P) 100, S&P 400 and S&P 600. The data panel consisted of 7,012 firms over the period of 1995- 2006. He used the ratio of rental expenses with net PPE as a comprehensive measure of lease ratio. Operating lease ratio, was calculated as rental commitments /net PPE (rental commitment variable only includes non-cancellable leases), net cash flow, i.e., net income plus depreciation and amortization as measure of cash flow, liquidity was measured as the average ratio of daily absolute return to the dollar trading volume on that day, for credit rating was market based . Tobin's Q was used to measure firm's growth opportunities, the firm size was measured as a log of sales and capital investments were measured as capital expenditures. He found out that firms with high information leased more and those with low agency costs leased less.

2.4.2 Local Studies

Tarus (1997) did a research on factors influencing the growth of lease in Kenya. He used descriptive research design and collected data through questionnaires both structured and unstructured while his population consisted of all companies listed in the stock exchange. He found that many firms employs lease financing because it helps in conservation of

cash flows and guards the firm against obsolesce despite having a complex accounting practice and legal regulation.

Nyachieng'a (2012) conducted a study to establish and analyze whether policy and legal framework, access to information, level of education and resources are factors that determined access to lease financing in Kenya among small and medium enterprises. The study employed the use of descriptive research design where by data collected was presented without the researcher influencing the findings in anyway. The target population for this study was 50 entrepreneurs of SMEs in Kisii Municipality. The findings of the study demonstrated that majority of the respondents were not satisfied with the policy and legal framework governing lease financing in the country. The findings of the study indicated that the respondents lacked access to information and as a result lacked access to credit. The study concluded that lack of adequate knowledge prevented SMEs from generating lease from banks or leasing companies due to their weak accounting standards since majority did not have tertiary education. As a result of this it was difficult for leasing firms to obtain information about prospective borrowers.

Munga and Ayuma (2013) conducted a study on factors influencing the use of lease financing in public institutions in Kenya. The study sought to establish the various factors that influence the government to adopt lease financing and whether it reduces cost or not. This research study used a case study design and a descriptive research design. The target population of this study was 293 staff working in the National Treasury of Kenya. The study made use of stratified random sampling to select 30% of the target population from the target population. The sample size of this study was therefore 88 respondents. This

study used primary and secondary data. Qualitative data was obtained from the open-ended questions. Content analysis was used in processing qualitative data and results were presented in prose form. On the other hand, the quantitative data in this research was analyzed by descriptive statistics and inferential statistics using Statistical Package for Social Sciences (SPSS version 21). The study established that availability of financial resources and agency cost had an inverse influence on the use of lease financing in public institutions.

Mungami (2013) conducted a study on determinants of lease financing decisions by non-financial firms quoted on Nairobi Securities Exchange, Kenya. Mann-whitney test, Pearson correlation and logit model were used to find out the effect of share ownership structure, debt capacity, level of profitability, size, cash flow conservation, legal environment, accounting treatment, chief executive share ownership, institutional investor ratio, cross listing, liquidity, tobin q, cash flow, cost of funds, industrial type, effective tax, investment opportunities and growth, pricing, bankruptcy costs, risk sharing, access to capital market, regulatory environment and judicial efficiency on lease financing decisions by non-financial firms quoted on the Nairobi Securities Exchange. The results indicated that cost of capital, financial distress, size, share ownership, management compensation, total debt ratio, chief executive share ownership were important in explaining lease decisions in the case of operating leases and cost of capital, size, performance, management compensation, chief executive share ownership were important for capital leasing decision. The results of the study indicated that just like in developed countries effective tax rate and size of the firms were important in making

leasing decision. However, financial distress and leverage were not major considerations by firms in making leasing decision.

Munene (2014) conducted a study on the effect of lease financing on the financial performance of companies listed at the Nairobi securities exchange. This study adopted descriptive research design. The population of the study was all the 62 listed companies in the NSE but data for only 30 firms was available for the period under study. Secondary data was collected for the firms for the period 2009 – 2013 from the financial statements. The measures of financial performance was taken as the dependent variables while amount of Finance lease, operating lease, liquidity, size of the firm and leverage was taken as the independent variable. The collected secondary data was analyzed using Statistical Package for Social Science (SPSS) version 22.The study concluded that lease financing does not influence the financial performance of listed firms in Kenya.

2.5 Summary of Empirical Review

In summary, there is some evidence that the review of literature presented the need to carry out the study. The studies undertaken in this area of leasing ignore the emerging markets and their specific needs; in fact no study reviewed above considers factors such as institutional and corporate governance which are key to an efficient market in developing countries.

Overall, academic literature underlines the advantages of leasing as an additional source of finance for enterprises. It is an alternative mechanism to facilitate access to finance. Empirical results show that leasing exposures are associated with relatively low risk compared to other forms of financing (Schmit, 2005; De Laurentis & Mattei, 2009). The

presence of physical collaterals contributes very largely to this reduced risk profile (Schmit, 2005).

Lease financing is a factor that has been discussed in several studies and also in general literature. We still have gaps in the knowledge of effect of lease financing on the financial performance. The area is still being explored by researchers in the context of previous empirical work.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study that is used to answer the study objectives. It outlines how the study is carried out. Specifically, the chapter discusses the research design, the population of the study, data collection and concludes with the data analysis methods and test of significance.

3.2 Research Design

Research design refers to the method used to carry out a research. It is the framework that has been created to seek answers to research questions. Designing a study helps the researcher to plan and implement the study in a way that will help the researcher to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Burns & Grove, 2001).This study used a descriptive research design. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction. According to Cohen et al. (2003) descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. In this paper it is used to explain how lease financing affects financial performance for firms listed at the NSE.

3.3 Population of the Study

Polit and Hungler (1999) refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. According to

Mugenda and Mugenda (2003) a study population is a well-defined or specified set of people, group of items, households, firms, services, elements or events which are being investigated. The target population of this study was on all listed companies in the NSE. There were 64 listed companies at the securities market (NSE, 2015). A census of all listed companies in the NSE that had reported use of lease financing in the financial statements over the past 5 years (between 2010 and 2014) was undertaken for the purpose of this study.

3.4 Data Collection

Secondary data was used for this study. According to Cooper and Schindler (2003) secondary data is the data that has already been collected by and readily available from other source. Secondary data analysis saves time that would otherwise be spent collecting data and, particularly in the case of quantitative data, provides larger and higher-quality databases that would be unfeasible for any individual researcher to collect on their own. For the purpose of this study published financial statements for each of the listed companies over the past 5 years was analyzed and those that had reported use of lease finance were selected.

3.5 Data Analysis

Data analysis was done after data collection by use of Statistical Package for Social Science (SPSS) version 20. A regression analysis was conducted on the data set to determine the effect of leasing on the ROA for the firms listed at the NSE. Salam (2013) argues that ROA is the most commonly used measures of financial performance and was used to measure performance in this study. The correlation coefficient (R^2) and the coefficient of determination (R) of the data set (for each determinant of financial

performance) were calculated to determine the causality relationship between lease finance and financial performance.

The linear regression equation used:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

Where;

Y = Return on Assets (Measure of Financial Performance)

ROA=Net Income after tax/Total Assets

Total Assets=Capital + Liabilities

β_0 = Constant Term

β_1= Beta coefficients

X_1=Lease Financing (Total Lease Financing /Total Assets)

X_2=Size {Log (Total assets)}

X_3=Liquidity (Current Assets/Current Liabilities)

e =Error term.

3.6 Test of Significance

The significance was tested using T-test and F-test. ANOVA was then carried out to check on the adequacy of the operations of the previous steps and for adding precision to the findings of the analysis. Other tests carried out on the model included test of Normality, Durbin Watson Test of Serial Correlation, Test of Heteroskedasticity and Test of Model Specification. The findings from the analysis were organized, summarized and presented using tables, so as to achieve the objectives of the study as well as answer the research question.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter represents the results and findings of the study based on the research objectives. The study sought to use data from all the listed firms on the Nairobi Securities Exchange. This study is based on 33 listed firms that had complete data for all the variables in the study for the five year period under review.

4.2 Descriptive Statistic

This section presents the results of the study. The first results show the descriptive summary of the variables used in the study.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	165	-.19228	.32182	.0559634	.06973164
Lease	165	.00000	.03868	.0058463	.00905567
Size	165	3.90174	11.24666	7.2002202	1.23726098
Liquidity	165	.46483	10.08932	1.7131038	1.45682335
Valid N (listwise)	165				

Source: Research Data (2015)

Table 4.1 shows that the ROA had a mean of 0.05596 with a standard deviation of 0.0697. Leasing had a mean of 0.0058 with a standard deviation of 0.0091. Size had a mean of 7.2 with a standard deviation of 1.2373. Further, liquidity had a mean of 1.7131 and a standard deviation of 1.4568.

4.3 Correlation Analysis

Table 4.2: Correlation Matrix

	ROA	Lease	Size	Liquidity
ROA	1	.130	-.293	.328**
Lease	.130	1	-.202	.236
Size	-.239	-.202	1	-.226
Liquidity	.328**	.236	-.226	1

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

Source: Research Data (2015)

Table 4.2 shows the correlation matrix for the variables used in the study. A correlation is a number between -1 and +1 that measures the degree of association between two variables. The results show that none of the correlations were beyond 0.5 suggesting that the independent variables were not serially correlated. Thus, all of them could be used in a multiple regression analysis.

4.4 Regression Analysis

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.370	.137	.121	.06537393	1.125

Table 4.3 shows the model summary. R value was 0.370. As shown by the R^2, the model accounted for only 12.1% of the variance in ROA. This therefore means that other factors not studied in this research contribute 87.9% to Return on Asset. Durbin-Watson statistic

is always between 0 and 4. A value of 2 means that there is no autocorrelation among the independent variables. Values approaching 0 indicate positive autocorrelation and values toward 4 indicate negative autocorrelation. Table 4.3 shows Durbin-Watson statistic of 1.125 which is a value approaching 2 which means there was no autocorrelation among the independent variables.

Table 4.4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.109	3	.036	8.531	.000[b]
	Residual	.668	161	.004		
	Total	.797	164			

Source: Research Data (2015)

In Table 4 above shows the analysis of variance. The results indicated that the model was significant since the p-value was 0.000 which is less than 0.05 thus the model was statistically significant in predicting how lease financing influences Return on Asset (measure of financial performance), the F statistic of 8.531 was significant at 5% level, p-value = 0.000.

Table 4.5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.100	.034		2.977	.003
	Lease	.219	.587	.028	.374	.709
	Size	-.010	.004	-.169	-2.221	.028
	Liquidity	.014	.004	.283	3.697	.000

Source: Research Data (2015)

Table 4.5 shows the coefficients of each of the independent variables in the study. As shown, leasing had a positive but insignificant effect on ROA, since the p-value of 0.709

was more than 0.05. The results also show that size of the firm had a negative effect on ROA but was also significant with a p-value of 0.028. Lastly, the results show that liquidity had a positive and significant effect on ROA, since the p-value of 0.000 was less than 0.05.

The regression equation was;

$Y= .10+ .028X_1 - .169X_2+ .283X_3+ e$

4.5 Chapter Summary

The study found that leasing had a positive but insignificant effect on ROA at 5% level of significance. This means that financial performance of listed firms in Kenya is affected by lease financing, though the effect is insignificant. This could be attributed to the low levels of lease financing currently utilized by the listed firms as most of the leases were operating lease and very few were finance leases.

The study found that size of the firm had a negative but significant effect on ROA at 5% level of significance. This shows that size of listed firms at the NSE did not influence their financial performance. This is consistent with a number of prior studies that have found size to be insignificant factors in explaining firm performance.

The study found that liquidity had a positive and significant effect on ROA at 5% level of significance. This suggests that liquidity does influence financial performance of listed companies in Kenya. While current assets were on average 1.7 times that of current liabilities, this level has significantly influenced performance of firms.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary of research findings, the conclusions made from the results, and the recommendations for policy and practice. The chapter also discusses a few limitations encountered as well as suggestions for future research.

5.2 Summary of Findings

The study sought to determine the significant effects of lease financing on the financial performance of companies listed in Nairobi Securities Exchange in Kenya. Secondary data from the annual financial reports of 33 firms were collected and used in the analysis. The study used a multiple regression analysis to determine how lease financing affects financial performance measured as the return on assets (ROA).

The descriptive results showed that lease financing averaged 0.00585 while financial performance (ROA) averaged 0.056. The results showed that size had a mean of 7.20. The descriptive results also showed that liquidity had a mean of 1.713. The correlation matrix showed that none of the independent variables were serially correlated.

From the regression results, lease financing and liquidity of the firm had positive effects on ROA while size had negative effects on ROA. Lease effects were however insignificant at 5% level of confidence, while liquidity and size effects were significant. The R^2 showed that the model explained 12.1% of variance in ROA

5.3 Conclusion

This study concludes that 33 companies listed in Nairobi Securities Exchange have been using lease financing for more than 5 years. The study concludes that there was a positive association between lease financing and Return on Assets. This implies that, a unit increase in lease financing would lead to a 0.028 improvement in ROA. While the relationship could be positive, it failed the significance tests at all the acceptable levels of significance. Therefore financial performance of firms in Kenya is not influenced by the level of lease financing and if influenced, it is with minimal insignificant levels.

The study also concludes that size of the firm does not have any effect on the financial performance of listed firms in Kenya. While the relationship could be negative, this relationship passed the significance tests at all the acceptable levels of significance. Therefore the financial performance of firms in Kenya is not affected by the size of the firm.

The study concludes that liquidity of a firm has a significant effect on the financial performance of listed firms in Kenya. As it was shown, there is evidence of a positive relationship and the effect was significant at the acceptable levels of significance. Thus, the financial performance of listed firms in Kenya is affected by the levels of firm liquidity.

5.4 Recommendations to Policy and Practice

The study recommends that firms should be careful with the use of lease financing as a method of financing their operations, as evidence suggests lease financing had

statistically insignificant coefficients at 5% significance level, and hence not very important in explaining the rationale of firms using it. However some evidence suggested a positive relationship between lease financing and ROA which may suggest that high levels of lease financing could be of importance. Therefore it is important for the firms to examine what value lease financing may add to them when other financing options are available.

The study also recommends that the Leasing Association of Kenya, needs to be proactive in marketing and providing information on the leasing products in Kenya. This could be monthly updates on the leasing products, incentives that encourage leasing uptake and costs involved in use of lease. This will go a long way to increase the use of both operating and finance lease which might improve the significance levels of lease financing within firms in Kenya.

The study recommends that since size of the firms does not affect financial performance, small firms should not be timid to explore ways of performing better in the market as their size is not currently detrimental to their performance. In fact, there is some evidence that smaller firms could outperform the large firms in terms of their ROA given the negative relationship between the ROA and size. Therefore small firms should come up with strategies which would improve their efficiency as they are not as complex as their large counterparts.

Lastly, the study recommends that firms should improve on their liquidity since there is evidence that higher liquidity may lead to higher ROA. This is because at present the ratios are low and they significantly affect the financial performance, an improvement of

these ratios may therefore improve their performance since more liquidity means that firms can meet their immediate obligations without hurting their working capital. High liquidity ratios can be achieved through reduction of current liabilities.

5.5 Limitations

This research study was limited to companies listed in Nairobi Securities Exchange. The study was using secondary data for all the listed companies, but could not use all the data for 64 listed companies because of data deficiencies. Some data, especially on lease financing, were unavailable for most of the firms or for some years in some firms and therefore such firms were dropped from the final analysis. Thus, only 33 firms were used in the final analysis. This is almost half of the listed firms and therefore a fair representative sample of the entire market. Also it was not possible to separate between finance and operating leases since some of the firms did not separate, only lease prepayments were reported, thus total lease figures were used to proxy for lease financing.

5.6 Suggestions for Further Research

The study suggests that more studies need to be done in valuation of leases in Kenya. Finance leases and operating leases intrinsic values in Kenya have not been fully explored. There is therefore, a need to provide a clear framework for valuation of leases in Kenya.

This study was limited to companies listed in Nairobi Securities Exchange. This study therefore suggests that further studies should be conducted on the effect of lease financing on the performance of public institutions in Kenya or SMEs in Kenya.

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APPENDICES

Appendix 1: List of Companies Listed in NSE (June 2015)

AGRICULTURAL

1. Eaagads Ltd Ord. 1.25
2. Kapchorua Tea Co. Ltd Ord. 5.00
3. Kakuzi Ord.5.00
4. Limuru Tea Co. Ltd Ord. 20.00
5. Rea Vipingo Plantations Ltd Ord. 5.00
6. Sasini Ltd Ord. 1.00
7. Williamson Tea Kenya Ltd Ord. 5.00

AUTOMOBILES AND ACCESSORIES

8. Car and General (K) Ltd Ord. 5.00
9. Sameer Africa Ltd Ord. 5.00
10. Marshalls (E.A.) Ltd Ord. 5.00

BANKING

11. Barclays Bank Ltd Ord. 0.50
12. CFC Stanbic Holdings Ltd Ord.5.00
13. I&M Holdings Ltd Ord. 1.00
14. Diamond Trust Bank Kenya Ltd Ord. 4.00
15. Housing Finance Co Ltd Ord. 5.00
16. Kenya Commercial Bank Ltd Ord. 1.00
17. National Bank of Kenya Ltd Ord. 5.00
18. NIC Bank Ltd Ord. 5.00
19. Standard Chartered Bank Ltd Ord. 5.00
20. Equity Bank Ltd Ord. 0.50
21. The Co-operative Bank of Kenya Ltd Ord. 1.00

COMMERCIAL AND SERVICES

22. Express Ltd Ord. 5.00
23. Kenya Airways Ltd Ord. 5.00
24. Nation Media Group Ord. 2.50
25. Standard Group Ltd Ord. 5.00

26. TPS Eastern Africa (Serena) Ltd Ord. 1.00
27. Scangroup Ltd Ord. 1.00
28. Uchumi Supermarket Ltd Ord. 5.00
29. Hutchings Biemer Ltd Ord. 5.00
30. Longhorn Kenya Ltd
31. Atlas Development and Support Services

CONSTRUCTION AND ALLIED

32. Athi River Mining Ord. 5.00
33. Bamburi Cement Ltd Ord. 5.00
34. Crown Berger Ltd Ord. 5.00
35. E.A.Cables Ltd Ord. 0.50
36. E.A.Portland Cement Ltd Ord. 5.00

ENERGY AND PETROLEUM

37. KenolKobil Ltd Ord. 0.05
38. Total Kenya Ltd Ord. 5.00
39. KenGen Ltd Ord. 2.50
40. Kenya Power & Lighting Co Ltd
41. Umeme Ltd Ord. 0.50

INSURANCE

42. Jubilee Holdings Ltd Ord. 5.00
43. Pan Africa Insurance Holdings Ltd 0rd 5.00
44. Kenya Re-Insurance Corporation Ltd Ord. 2.50
45. Liberty Kenya Holdings Ltd
46. British-American Investments Company (Kenya) Ltd Ord. 0.10
47. CIC Insurance Group Ltd Ord. 1.00

INVESTMENT

48. Olympia Capital Holdings ltd Ord. 5.00
49. Centum Investment Co Ltd Ord. 0.50
50. Trans-Century Ltd
51. Home Africa Ltd Ord. 1.00
52. Kurwitu Ventures

INVESTMENT SERVICES

53. Nairobi Securities Exchange Ltd Ord. 4.00

MANUFACTURING AND ALLIED

54. B.O.C Kenya Ltd Ord. 5.00
55. British American Tobacco Kenya Ltd Ord. 10.00
56. Carbacid Investments Ltd Ord. 5.00
57. East African Breweries Ltd Ord. 2.00
58. Mumias Sugar Co. Ltd Ord. 2.00
59. Unga Group Ltd Ord. 5.00
60. Eveready East Africa Ltd Ord.1.00
61. Kenya Orchards Ltd Ord. 5.00
62. A. Baumann CO Ltd Ord. 5.00
63. Flame Tree Group Holdings Ltd Ord. 0.825

TELECOMMUNICATION AND TECHNOLOGY

64. Safaricom Ltd Ord. 0.05

Appendix 2: Research Data (2015)

COMPANY	ROA	LEASE	SIZE	LIQUIDITY
Athi river mining 1	0.04046	0.00407	7.56717	0.46915
2	0.04541	0.00501	7.47283	0.94507
3	0.04622	0.00660	7.43061	1.22045
4	0.05608	0.00864	7.31209	0.84235
5	0.04781	0.00184	7.21919	1.32235
Bamburi 1	0.09522	0.00454	7.61269	2.29684
2	0.08539	0.00479	7.63363	2.68132
3	0.11343	0.00407	7.63385	2.34802
4	0.17489	0.00528	7.52507	2.62036
5	0.15910	0.00561	7.52252	1.72334
Barclays Bank 1	0.03714	0.00025	5.35381	1.19601
2	0.03687	0.00028	5.31542	1.17394
3	0.04729	0.00032	5.26676	1.20556
4	0.04833	0.00036	5.22279	1.22761
5	0.06147	0.00035	5.23658	1.24401
Car & General 1	0.04396	0.00182	6.85689	1.09615
2	0.04576	0.00195	6.83894	1.11203
3	0.04672	0.00241	6.75629	1.16006
4	0.05190	0.00263	6.74525	1.12326
5	0.06154	0.00386	6.58786	1.31315
Carbacid 1	0.19369	0.02544	6.40366	6.29627
2	0.21572	0.02967	6.34329	10.08932
3	0.19340	0.03296	6.30380	4.25787
4	0.17368	0.03868	6.24055	8.84312
5	0.20328	0.01412	6.17960	5.78601
Crown Berger 1	0.00512	0.00220	6.58578	1.14640
2	0.07260	0.00297	6.46915	1.38154
3	0.05914	0.00400	6.35377	1.53593
4	0.05823	0.00419	6.34544	1.46392
5	0.04635	0.00484	6.29498	1.49233
East Africa Cables 1	0.04324	0.01789	6.89705	1.16793
2	0.05848	0.02174	6.83310	1.30482
3	0.08355	0.02399	6.79579	1.19714
4	0.06303	0.03162	6.69836	1.16063
5	0.04069	0.03540	6.65499	1.28322
E.A Portland 1	(0.02460)	0.00060	7.19638	0.94641
2	0.11004	0.00071	7.20773	1.08513
3	(0.06959)	0.00083	7.14541	1.02370

4	0.04175	0.00087	7.12853	1.46908
5	(0.02429)	0.00098	7.08054	1.58532
Eveready 1	(0.19094)	0.00021	5.96851	1.33386
2	0.04828	0.00021	5.97343	1.54041
3	0.06090	0.00018	6.06097	1.25911
4	(0.12266)	0.00021	6.00469	1.11539
5	0.00744	0.00018	6.06809	1.41051
Kakuzi 1	0.04153	0.00114	6.58630	6.65696
2	0.04439	0.00118	6.57026	7.95385
3	0.11441	0.00123	6.55287	8.47451
4	0.16881	0.00212	6.58176	3.34507
5	0.11974	0.00252	6.50767	2.07353
Kengen 1	0.01130	0.00420	8.39830	1.09662
2	0.02783	0.00236	8.27571	1.42185
3	0.01730	0.00026	8.21257	1.48578
4	0.01292	6E-05	8.20681	1.73579
5	0.02183	8E-05	8.17773	4.71310
KenolKobil 1	0.04563	0.03072	7.37867	0.95025
2	0.01986	0.02136	7.44904	0.93456
3	(0.19228)	0.01863	7.51434	0.96841
4	0.07121	0.01424	7.66252	1.22418
5	0.05515	0.02094	7.50808	1.38045
KPLC 1	0.02933	0.00060	8.34264	1.03202
2	0.02457	0.00074	8.24836	0.92261
3	0.03442	0.00098	8.12753	0.89728
4	0.03520	0.00110	8.07874	1.15739
5	0.04633	0.00164	7.90425	1.04782
KQ 1	(0.02275)	0.00833	5.17219	0.46483
2	(0.06411)	0.01007	5.08874	0.56270
3	0.02144	6E-05	4.88892	1.40050
4	0.04493	6E-05	4.89621	1.06338
5	0.02778	8E-05	4.86488	0.86783
Safaricom 1	0.17101	1E-05	8.12905	0.74019
2	0.13612	2E-05	8.11011	0.69296
3	0.10359	2E-05	8.08600	0.56344
4	0.11558	2E-05	8.05635	0.63607
5	0.14549	3E-05	8.01754	0.66738
Sameer 1	(0.01735)	9E-05	6.58629	2.52383
2	0.10936	9.9E-05	6.56449	3.37397
3	0.05582	0.00022	6.53143	2.83315
4	0.03102	0.00024	6.49486	3.01996

5	0.01859	0.00024	6.48954	2.71278
Sasini 1	0.00304	0.00134	7.17405	2.32795
2	0.01013	0.00224	6.95686	1.77100
3	(0.01391)	0.00230	6.95051	1.89518
4	0.04760	0.00220	6.97598	2.13089
5	0.10968	0.00232	6.95713	2.36522
Standard Group 1	0.05376	0.02899	6.61297	1.21921
2	0.04581	0.02914	6.61666	1.15610
3	0.05235	0.03489	6.54426	1.11582
4	0.04195	0.02379	6.54559	1.07799
5	0.08463	0.02561	6.51930	1.32212
Total Kenya 1	0.04376	0.02176	7.51244	1.48822
2	0.03282	0.01785	7.60189	1.27744
3	(0.00613)	0.02064	7.51826	1.29965
4	(0.00203)	0.01945	7.54652	1.10028
5	0.03016	0.02247	7.48253	1.14810
TransCentury 1	(0.11703)	0.02222	7.28922	1.59495
2	0.02628	0.01874	7.37731	1.48706
3	0.03370	0.00686	7.33937	1.28457
4	0.02834	0.00726	7.33730	1.40993
5	0.04167	0.01426	7.05063	1.59234
Uchumi 1	0.05582	0.00279	6.83789	0.67174
2	0.06405	0.00349	6.74613	0.70475
3	0.07181	0.00517	6.58156	1.09827
4	0.11568	0.00593	6.52827	1.08606
5	0.32182	0.00755	6.42945	0.95887
Unga Group 1	0.04769	0.00429	6.90453	2.27132
2	0.06108	0.00429	6.91996	1.83784
3	0.05432	0.00590	6.80688	2.35827
4	0.07726	0.00708	6.75655	2.52205
5	0.04663	0.00832	6.70453	2.54091
NIC Bank 1	0.02824	0.00359	8.16370	1.17468
2	0.02674	6E-05	8.08301	1.16987
3	0.02803	7E-05	8.03482	1.16661
4	0.03427	9E-05	7.89754	1.13801
5	0.03158	0.00013	7.77095	1.13591
National Bank 1	0.00707	3E-06	8.09023	1.04226
2	0.01202	5E-06	7.96640	1.05896
3	0.01087	0.00017	7.82708	1.11209
4	0.02252	0.00017	7.83673	1.12511
5	0.03368	0.00020	7.77834	1.14714

KCB Bank 1	0.03436	0.00028	8.69050	1.15867
2	0.03669	0.00036	8.59201	1.14408
3	0.03316	0.00040	8.56587	1.14470
4	0.03320	0.00045	8.51946	1.09394
5	0.02856	0.00058	8.40029	1.10939
I&M Bank 1	0.03249	0.00165	11.24666	1.27052
2	0.03523	0.00171	11.14984	1.27759
3	0.02846	0.00170	11.16054	1.17153
4	0.03214	0.00232	11.03368	1.16575
5	0.02906	0.00161	10.93893	1.18115
HFCK 1	0.01600	0.00076	7.78506	1.53338
2	0.02100	0.00099	7.67568	1.62340
3	0.01815	0.00116	7.61232	1.63847
4	0.01952	0.00151	7.50339	1.60475
5	0.01296	0.00166	7.46655	1.72567
Equity Bank 1	0.03303	0.00041	8.53077	1.26530
2	0.04781	0.00065	8.44362	1.28747
3	0.04968	0.00120	8.38591	1.27808
4	0.05260	0.00015	8.29291	1.22246
5	0.04986	0.00020	8.15539	1.18946
Co-operative Bank 1	0.00997	0.00015	8.39326	1.16914
2	0.03939	0.00017	8.36402	1.12541
3	0.03845	0.00019	8.30295	1.09962
4	0.03186	0.00023	8.22611	1.04166
5	0.02968	0.00026	8.18848	1.06122
CFC Stanbic 1	0.03142	0.00033	8.25768	1.19844
2	0.02840	0.00035	8.25651	1.15906
3	0.02102	0.00046	8.15598	1.14835
4	0.01092	0.00046	8.17659	1.08140
5	0.01276	0.00051	8.14638	0.94875
Nation Media 1	0.20179	0.00696	4.07716	2.36504
2	0.22135	0.00724	4.05859	2.52031
3	0.23510	0.00790	4.02847	2.25330
4	0.22762	0.00964	3.94529	2.31345
5	0.19290	0.01088	3.90174	1.98848
BOC Kenya 1	0.09982	0.00148	6.36179	2.13901
2	0.07696	0.00133	6.42047	2.22698
3	0.09921	0.00180	6.29875	2.07934
4	0.08290	0.00203	6.25931	1.94006
5	0.03928	0.00188	6.30531	2.47999
EABL 1	0.10910	0.00017	7.79842	0.72129

2	0.11860	0.00019	7.76757	0.69881
3	0.20493	0.00020	7.73707	0.80315
4	0.18133	0.00060	7.69646	1.05231
5	0.22996	0.00079	7.58468	1.48565