THE EFFECT OF MERGER ANNOUNCEMENT ON THE STOCK RETURNS OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this Research Project is my original work and it has not been submitted by any other person or for any degree or examination in any other University.

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This Research Project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

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LIST OF ABBREVIATIONS

CAAR	-	Cumulative Abnormal Average Return
CAPM	-	Capital Asset Pricing Model
CAR	-	Cumulative Average Residual
CMA	-	Capital Markets Authority
EABL	-	East Africa Breweries Limited
EMH	-	Efficient Market Hypothesis
EPS	-	Earnings Per Share
FISMS	-	Fixed Income Securities Market Segment
GEMS	-	Growth Enterprise Market Segment
KCB	-	Kenya Commercial Bank
KLSE	-	Kuala Lumpur Stock Exchange
M&A	-	Mergers and Acquisition
MIMS	-	Main Investment Market Segment
UK -	-	United Kingdom

ABSTRACT

The study seeks to investigate the effect of merger announcements on stock returns on firms listed in the NSE. The study comprised of 64 companies listed at the NSE, the study sampled 9 companies that had undertaken merger in the periods between 2008 and 2017 and were already listed at that time of merger announcement. The firms included Total Kenya Ltd, Scan group, Unga Group Ltd, Kenol Kobil, CFC Stanbic Bank Ltd, East African Breweries LTD, Britam Insurance, Diamond Trust Bank of Kenya Ltd and Kenya Commercial Bank Ltd. The study used data secondary data obtained from the Nairobi Security exchange reference library and the University of Nairobi past papers from the Jomo Kenyatta Memorial Library. The research design used an event study methodology design that was designed to measure the abnormal returns resulting from an unexpected merger event. The observations were centered within 31 day event window that is 15 days before merger announcement and 15 days after merger announcements. The research shows that there were negative abnormal returns that were observed by investors at the day of announcement and positive increase that were experienced by the shareholders especially after announcement and in some cases the share prices dropped after announcement and rose again in some days thereafter. To get the expected return the market model was used which was subtracted from the actual return to get the abnormal returns, therefore this was the best way to help the researcher examine whether or not the share returns were influenced by the merger announcements. The researcher findings small positive insignificant abnormal returns were made by the bidding companies hence wealth creating projects for investors at the NSE since they could influence the returns positively in short term, therefore the study recommends that merger activity should be undertaken when there is an increase in value. The study recommends that tools of synergy assessment that are non-market should be deployed by the regulators based in a bid to evaluate the performance of merged firms, this will help to establish the reasonable conclusions on before and after merger event.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Merger announcement affects targets firm's stock price, the reaction in the security market makes the shareholders review their goals and expectations about the firms profitability in future (Panayides & Gong,2002).The Synergy hypothesis states that the merging company's stock price are affected negatively and the target company's stock price is affected positively immediately prior and post a merger announcement. Merger announcement is among the event initiated by the companies that affects share price among others that are, dividends, stock splits, borrowing and bonus share, are investors additional share for each share they holds hence the share price of the company falls in the same proportion of the bonus issued, right issue; is issued to the existing shareholders, this affects the share price falls in the same proportion as the right issue, stock splits, this affects the share price by reducing according to the stock split ratio. The announcement will imply that the company has money hence will attract many investors to invest with the company and therefore affects the share price positively.

According to the Efficient Market Hypothesis (Fama, 1970), states that stock prices fully reflects the available publicized information, Market Efficiency is usually tested by applying an event study methodology (Brown & Warner, 1980), therefore stock price will react positively to the merger announcement this is because the shareholders who merge the firms will achieve optimal results due to merger announcement benefits, while the

behavioral finance theory (Daniel, 2002) states that the investors base their investing decisions on emotions hence tend to buy more stocks after merger announcement.

Aga and Kocaman (2008) concluded that developed markets shows mixed reaction on stock behavior around merger announcement, they further argued that there's a positive reaction in the market to high earning announcements and negative reactions to low earning announcements. Panayides and Gong (2002) studied the stock reaction on merger announcement in the shipping company and they concluded that all firms stock price increase rapidly on announcement of the merger. Kanja (2012) in his studies he looked at the information content of merger announcement for listed companies in the NSE and concluded that merger positively affects shareholders wealth which is due to the abnormal return around the day of merger.

1.1.1 Mergers Announcements

A merger is the consolidation of more than two companies (Weston & Copeland, 1992), Mackkinlay (1997) defined merger announcement as that time when companies announces the mergers to the public through the press release, therefore when a merger is announced, it reveals important information about that deal, hence the information is used to evaluate the reaction of stock market to the announcement of a merger.Two organizations joined to make one big company hence the merging company they combine their assets and liabilities to make them for one company and they can decide to change the name of the new company or retain of the name depending on the company that was bigger than the other one this way of making alliances with other firms to make them one

was also done globally by merging bigger companies with small companies to make them one and hence improve the market share (Freidheim, 1998).

Halpern (1983) in his studies concluded that mergers occurs when firm and a targeted firm agrees to combine their firms under legal procedures of a country on merging of two firms, in his argument on merger (Manne, 1965) said that merging will be a corporation not an individual and shares will be a way of exchange used to buy control will be shares of the acquiring company but not based on cash and mergers needs approval of the shareholders already in charge of the organization.Trautwein (1990) in his studies said that there are different types of mergers that play very big roles in the expansion of firms. There are three different types of mergers that were identified by (Kumar & Bansal, 2008) namely: horizontal mergers which is the combining of two firms that were in the same level and operating in similar sectors and same production level producing similar products, vertical mergers also these are mergers producing different goods and services for particular finished products and conglomerate mergers is the combination of firms that operates in different business.

1.1.2 Share Prices/Stock Returns

Stock return this measures return which the company's management can earn on common stock holders' investment. Baker (2006) defined Return as the gain or loss on the securities held by shareholders for a particular period of time. Companies are free to choose the level of stock (dividend)they want to pay to the those with ordinary shares despite there are some limitation to this decision as debt agreements and legal

requirements, the availability of cash resources. Fama and French (2001) in their studies they concluded that stock return bigger and profitable while those on non-payers are small and less profitable also have high opportunities for investment. Shleifer and Vishny (2000) did a study on stock return policies on 4000 firm in 33 countries they concluded that stock return vary across legal regimes that stock return payment is the result of pressure from the minority investors to limit agency behavior therefore countries that have good legal protection to shareholders, tend to pay have high payout ratio compared to company with in those countries with weak legal protection to shareholders.

There are two main components contained in the stock returns namely the income component that is dividend and the Capital gains to help investors to choose the stock to buy, according to Keonwn & Pinkerton (1984) they concluded that dividends changes how announcements is done to the market. According to Ross, Westerfield & Jaffe (2002) they defined stock return as part of a firms earnings that's is distributed to the investors hence this is a decision made by the board of directors, dividends is expressed as shillings per share, market price percentage which finally is the dividend yield, therefore on conclusion dividend is the mandatory distribution of gains realized from the capital gains (Khan & Jain, 2007).Capital gain is defined by Megginson and Smart (2008) as the earnings that accrues to the investor when selling an asset, or capital gains refers to the excess returns realized over the buying of certain assets like company's common stock (Khan & Jain,2007).

1.1.3 Merger Announcement and Stock Return

Sometimes mergers may transmit the information that may lead to the reaction of the share price, hence the return of the merged firms are usually influenced by over engaging into mergers activities hence becoming hard to influence a single merger activity, many mergers led to the benefits of competing hence allowed firms to operate more efficiently after the merger period, many mergers create a strong market while others makes single company to raise the price of their shares.

Mergers occur for the purpose of delivering the value of the firm and generate profit two companies that are combined to develop synergy and create the value of the firm. According to (Mulwa, 2013) many companies in 2001 failed due to poor stock return management of the merged companies as stated by (Boot, 2011).Firth (1979) suggested that mergers have unique benefits that can be achieved by the combined firm, he further said that there is a potential economic benefits of mergers which are changes that increase the value that could not be made in the absence of changes that are in control of potentially and most important because they lead to the redeployment of assets, business strategies and providing of the new operating plans for the firm (Pazarkis et al., 2006).

Merger increases the share price hence the bigger the company the greater the stock returns. According to the synergy theory merger targets to increase the share price for the shareholders therefore those companies that combine are better hence makes more revenue than that small one company therefore results to cost reduction.

Example of proctor and Gamble merged with Gillete in 2005, according to the researcher found that this merging led to growth of company revenues (Andrade, 2004) he stated that the key determinant of a company participate in the merger is its financial position that is used to gain firms competition by obtaining its larger market share to expand its geographical area and reduces business risk therefore according to (Ismail Abdou&Annis,2011) he stated that the great way to achieve stable financial growth is by merging a company.

1.1.4 Nairobi Securities Exchange

There are many companies listed at the NSE however there are specific firms that have merged and become one firm through mergers, therefore NSE was constituted in 1954 when Kenya was a British colony and it's the 4th largest stock exchange in trading volumes in Africa and 5th market capitalization as a1% GDP.NSE plays a big role in the Kenyan economic development by encouraging firms to save thus helps them to reallocate funds from dormant to active agents and making long term investment liquid e.g. transferring of securities. NSE has also helped firms to participate in local ownership of shares hence enabling Kenyans to own shares and invest in good companies hence leads to development of the economy.

According to the NSE stock market leads to the government privatization programs as well as enhances inflow of international capital. According to the NSE (2014), 64 firms are listed, among them, the main investment segment has 63 firms listed and one company among the 64 is listed on the growth market enterprise market segment, the

segments on the NSE are Agriculture, Automobile and Accessories, Banking, Commercial and Services, Energy and Petroleum, Construction and Alied Investment, Insurance, Manufacturing and Alied, Technology, Telecommunication, Growth Enterprise and Market Segment.

NSE saw an increase in merger activity from 2001 to 2013since the completion authority became operational in year 2011 it has determined more than 50 mergers application in comparison to the 6 year period between 2005 and July 2011 hence on this time there were only 68 mergers that alerted to the monopolies and prices department, the predecessor of the competition authority(Mutulu,2014) this affected, Floriculture, Insurance,Information,Engineering,Banking,mining,Construction,Petroleum,Communication and Technology (ICT), therefore there are number of merger that have taken place in Kenya in the past years see Appendix B.

1.2 Research Problem

According to the theory of Efficient Market Hypothesis (Fama, 1963) states that price always reflects fully the available information released to the market, the theory shows that stock prices will react positively to the to the merger announcement, this is because the firms shareholders that are involved in the merger activity will achieve optimal results due to merging benefits like increased market share and revenue, economies of scale among other benefits. Sirower (1994) in his studies he concluded that mergers announcement lead to negative or abnormal return to the shareholders of the mergers, he further said that some firms that announce about merging the information may not be

received positively by the investors, therefore many investors will not buy the shares hence this information will lead to the negative effect on the share price hence share price will decrease.

Trifts and Scanlon (1987) conducted a study on effect of Bank merger announcement on stock return, he concluded that there was a substantial rise in the stock price of the bidding Banks in the state during the time merger proposal was announced hence positive effect to the share price. While on the other side of this study, Schwert (1996)concluded that merger announcement would not create value for investors to target firms and merged companies therefore leading to a negative abnormal return, Bradley (1988) further concluded that merger announcement would lead to a negative abnormal return to mergers shareholders. Keown and Pinkerton (1981) concluded that excess return earned by shareholders in merged firms before the first public announcement of planned mergers point to presence of inside trading that leads to rise of stock price. Popovici (2014) argued in his study on the effect of merger on performance of bidder Bank during the periods of 2000-2011 and he concluded that merger does not improve the value of the market of shares of bidder Bank.

Locally Corporate restructuring in Kenya is different from those in developed countries, there are few number of firms listed in the NSE with thin trading that affects its efficiency, generally this attempts to study the information on merger announcement and their whether they have an effect on the share price of the companies that have merged and are listed at the NSE.

Bosco (2015) in his study on effect of merger and acquisition on the financial performance on insurance companies in Kenya, while Baraza (2013) studied the stock price reaction to merger announcement on the firms listed in the NSE companies Kenya, they both found a positive effect on the stock return and also profitability that led to increase the after merger announcement event, while on the different opinion, Constantine (2008) in her study on merger announcement on share price at the NSE between years 1997-2006, she stated that many of the firm's stock returns did not experience a positive reaction for the merger announcement hence concluded that merger announcement is not significant in moving of the share prices.

This study investigates share price move upon merger announcement for firms that have made announcement for periods after automation of NSE trading process which has changed the market and information in the market, the research question that the study seeks to answer is, what is the effect of merger announcement on the Stock Returns on companies listed at the Nairobi stock exchange?

1.3 Research Objective

The objective of this research is to find the effect of Mergers Announcement on the Stock Returns of companies listed at the Nairobi securities exchange.

1.4 Value of the Study

The study will act as an empirical evidence for other researchers who will be conducting same research on the mergers and Stock return hence to improve the research and update

on new findings, also the investment advisors will use the study to advise their clients on the kind of stock to invest the study will guide them on how best to advise investors to invest based on their goals and objectives, the share price effect on corporate restructuring information help investors on making decision on action to take during corporate restructuring to maximize their wealth.

The study will greatly benefit the policy makers and the management of different organizations or firms listed at the NSE to understand how mergers has benefited other forms in term of increasing the market and also revenue of the merged firms and identify the key aspects that that would turn around a firm after merger or acquisition with aim of improving their financial performance.

The study will be of value to the faculty at the university increasing academic data as learning material for the students to get knowledge and research, hence students will benefit from the study as they will use for reference for their work related on merger announcement and stock return. The study will also assist customers be in a position to understand on the possible effects of mergers and how it affects them. Synergies can be created that will lead to reduction of prices of items or otherwise in case the mergers deal does not succeed. Mergers also have the possibility of creating monopolistic firms that act to the detriment of customers in terms of prices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will focus on theories surrounding the problem and the empirical review of related studies, the determinants of stock return will also be the issue to discuss and the conceptual frame work of model.

2.2 Theoretical Literature

This is the section for theories upon which the study rests and it's highlighted, they include; Efficient Market theory, Information Theory and Free Cash Flow theory and the Behavioral Finance theory.

2.2.1Efficient Market Theory

Fama (1970) defined efficient Market Hypothesis (EMH), as a market where prices fully reflects the information available in the market hence no unusual profits can be earned through exploiting this information. According to Elton, Gruber, Brown, & Goetzmann, 2011) efficient capital market means that security price are fully reflected all available information, security market is efficient when information is spread widely and is cheap also available to investors and reflects all relevant information in the security prices Brealey and Myers (1988), in their studies they also said that price change in an efficient market are random this is because prices changes when there's relevant information and when changes there's arrival of new information in the market, no information can be predicted a head of time therefore prices changes cannot be predicted in that time,

according to EMH stock prices reflects all information available that are related to the profitability of the company and that of the financial market efficiently disseminates the new information that affects the company's profitability (Fama, 1969), there are three forms of EMH namely ;weak form efficiency, semi strong form efficiency and strong form market efficiency, Fama concluded that most firms are at semi strong form of market efficiency.

Weak form assumes that the current security prices shows the past and the available current security market information hence the future information has no relationship with the past price and data on the security prices therefore weak form concludes that excess return cannot be achieved through technical analysis. Semi strong market efficiency assumes that past and current security prices are similar and are already incorporated into asset prices to adjust fast to the to the release for both public and private information .The strong market form assumes that private information that's internal information is factored into security prices and no one has individual access to important information hence assuming a perfect market and concludes that excess or abnormal returns are impossible to achieve consistently. Technical analyst have opposed this theories severally Goodman (1979) in his study he argued against the efficient market hypothesis theory that many investors expectations are based on the past prices ,past earnings, tract records and other indicator, therefore many believes that stock prices are depends largely on the buyers expectation.

2.2.2 Information Theory

According to (Bradley, Desai and Kim,1983) they also called it signaling that this is a revaluation of ownership shares of companies that they are owing to the new information generated during the merger negotiations, the management send out signals to illustrate the future direction of the company ,this signals demonstrates what the firm is doing to maximize the firms value (Van Horne & Wachowicz, 2005) in their studies they concluded that the market needs information and hence reacts on how the firms performs in terms of profitability and also to the information that was communicated by the management during the merger announcement, example market reacts to dividends hence the investors reacts positively if the firms dividend s are increased, Signaling theory explain the positive market reaction (Bradley, Desai & Kim,1983) gives managers the confidence to believe in positive future from words to action, the management send out information to the market about merger transactions to influence the expectations of the investors. When investors' confidence is strong on the management and the information given by the firm it will be seen in the investors reaction.

Desai and Kin (1983) if the investors have believe in the management this will cause increase on stock price on reverse its true the opposite reaction is expected when there's negative belief in the future life of the company.

2.2.3 Behavioral Finance Theory

Daniel and Amos (2002) talked about how people tend to make their own decision based on their beliefs on very accurate information hence it's difficult to determine the behavior

to outsmart the market. Daniel (2002) gave an evidence that irrational investors leads to misevaluation of the securities, people bought stock that were overvalued there was a big personal wealth destruction that occurred when the bubbles busted. Davidson, Dutia and Chen (1983) supported the analysis by relating it to the rational expectation analysis that was made by Schipper and Thompsons (1983), in the hypothesis they stated that investors adjust to the valuation of bidder company share price whenever the market recognizes a merger plan by corporate announcement, this will lead to the increase or decrease of the market volume of securities because there is a signal that is given by the stock value to investors, Information is going round in the financial markets which is managed by different level of skills, Daniel, Hirshleifer and Subrahmanyam (1998), they concluded that there were overconfident investors who over valued the accuracy of their own information but not the public information, they concluded that there's a pattern that is created by the reaction of the information on the average announcement dates returns gives similar signs as the average after the events abnormal returns.

Daniel and Subrahmanyam (1998) further concluded that if the event is selected in a reaction mispricing of the market then the reaction is produced ,if the investors were looking at the information about mergers deals and discover that the stock is overvalued they will immediately trade to investors hence causing the selling demand of the stock to rise, otherwise contrary if the overconfident investors think that merger will not add the value to the stock prices, the selling demand will decrease, therefore the level of the investors' confidence varies in the quantity of selling stocks in the financial markets which affects the stock price.

2.2.4 The Free Cashflow Theory

Easterbrook (1984) free cash flow to equity is the available cash to distribute to shareholders of the company, he said to allow managers to avoid use of capital markets they divert free cash flow from shareholders. Jensen (1986) in his studies he concluded that there are conflict of interest to the free cash flow distribution between shareholders and managers they are required to represent, the theory insist on the need to improve the financial performance through merger, when managers divert their free cash flow from dividend it's the return on shareholders' equity that is affected hence affecting the financial performance of a firm, the reason being that return on equity measures the firms profitability by showing how much a firm makes from the funds invested by the shareholders and investors.

2.3 Empirical Review

Lichtenberg and Siegel (1990) in his study to examine the UK market and concluded that some firms that are undertaking mergers earned high rate of return than this that dependents on internal growth however Lichtenberg and Siegel (1990) were not able to identify the positive relationship between the level of merger activity and profitability.

Ederington & Lee (1995)used the semi strong market efficient hypothesis that said all current prices adjust immediately to reflect all the new and private information released to the market, therefore if the reaction is positive may lead to the increase of shares and the shares may reduce if the market reaction is negative and remain unchanged if the investors remain indifferent to the announcement that contains new information, hence

information is free therefore investors need to take advantage of the information and make rational decision on the security prices in the market.

On a different condition there's no free information and the shareholders have to do cost benefit analysis to make decision on how much information they get (Amos, 2009), hence when new information enters the market the market price will adjust fast because investors will quickly revise their previous decisions by trading the securities based on their new beliefs (Daniel, 2002), hence leads to changes in the market price. In different business seasons, price will fluctuate in the market or resignation of key employee hence this random fluctuations of security price overall period of time is called random walk as in the random walk theory.

Akinyomi and Olutoye (2014) in his study on the effect of merger and acquisition on the profitability of the Nigerian Banks using regression analysis, in their study they concluded that there was a significant difference between before merger return on equity and also difference of the post-merger return on asset , their results showed a decrease in the financial performance at the post-merger when prepare with that of the before merger activity hence they concluded that merger and acquisition in Nigeria Banking sector is yet to show any improvement in their bank profitability.

Firth (1988)examined market efficiency with respect to new information in the announcement that a company had acquired 10% of a company, Firth found that in the UK and United States ownership of more than 1% must be made public, he used single

model index to calculate the expected return and he concluded that there was a general increase in the cumulative expected return throughout the first day that the announcement was made, he showed that the weight of the increase occurs between the last trade prior the announcement and the last trade that from the first trade after announcement until the 30th day after announcement there's a small decrease in the cumulative excess return as evidenced in the market efficiency theory.

Abdallah (1999) in his study on the effect of right issue announcement on stock prices by listed firms in the Kuala Lumpur Stock Exchange (KLSE) in the years between 1987 and 1996,in his study the main aim was to report whether the KLSE is semi strongly efficient with respect of the announcement of the right issue to check whether the implication of corporate finance theories on effect of an event can be supported in the context of an emerging market, he sampled 70 companies which had done right issue announcement and concluded that the Malaysian Stock Market is not Semi Strongly efficient because of the constant non zero abnormal return, he further concluded that the study was not was not consistent with the hypothesis that security return adjust fast to reflect in market information.

Moffet and Naserbakht (2012) carried out a study to investigate the stock price behavior of targets and acquirers based on merger announcement over a period of ten years between 2000 and 2010 by using the even study as their main method of measuring the effect of merger activity, they concluded that merger announcing led to a positive actual return for both targeted and acquirer Banks .By using an event study methodology ,

Dilshad (2012) in his research to analyzed the effect of Bank merger announcement on stock prices in Europe from 2001 to 2010,he concluded that there's a defined action on the stock prices around day zero, he also concluded that the merger may not be significant in determination of reason for a certain behavior. Mitchell and Lehn (1990) they carried out a study on stock price reaction to the merging the firms between 1982 to 1986,the stock price of the merging companies that was targeted decreased when they announced consolidation, they concluded that merging led to the negative results.

Constantine (2008) did a study on the effect of merger announcement on share prices sampling 9 firms listed at the NSE that merged between 1997 to 2006 using the event study methodology, she concluded that majority of the firms stocks return did not experience a significant positive reaction after merger announcement hence, merger announcement is not significant in moving the share price. Mboroto (2013) in his study of the effect of merger and acquisition on financial performance of petroleum firms in Kenya he concluded that petroleum firms had a better performance after merger than before merger, he further said that merger had a significant effect on the return on asset that is the general standard measure of financial performance because of the statistical significance it has on their turn on asset and total asset ratio.

Gathecha (2014) carried a study on information content of merger announcement for listed companies at the NSE using a descriptive design and the standard risk adjusted an event study methodology by sampling five firms, he concluded that mergers positively affect shareholders wealth as seen by the abnormal return around the announcement date

of merger. Gathecha findings were different from that of Constantine (2008) who concluded those merger announcements don't have any positive significant relationship hence mixed results.

Mailanyi (2014) on his study he used the simple research design to find the effect of M&A on financial performance of oil companies in Kenya by sampling four oil companies for ten years between years 2003 and 2013, he concluded that there was a significant relationship of merger on financial performance that was measured by the ROE but in this study it will investigate if there's any significant relationship between merger and the share price.

Mahmood et al (2012) in his study on effect of merger on financial performance of merged companies in Pakistan, he used 8 sample firms that merged in Pakistan between year 2000 to 2002 where most of the firms he used were banks and pharmaceutical industry which were all listed in Karachi stock exchange, they concluded that there was a positive change that resulted in share price of 5firms as well as negative impact on share price of 2 companies that had been found with one month after merger hence no change of price of one firm that was found, therefore they concluded that merger positively affects the share price of firms.

2.4 Determinants of Share Price

The ordinary shares are the best way to invest that may lead to great returns to shareholders apart from being the source of finance to companies, returns from those equities leads to movement of share prices that depends on some factors are; macroeconomic factors and firms specific factors (Mazzucato, 2002).

Macroeconomic Factors

Most of the stock prices are influenced by market expectations in the short run, many studies have been undertaken to determine the effect of macroeconomic factors on share price of companies, this factors are, the rate of interest, GDP growth, inflation, financial debts, stock prices and the degree of market efficiency, for example GDP will lead to positive change in the shares price ,while high inflation will erode the purchasing power therefore limiting the investors from buying shares while those with share may sell them and use them on cash expenditure, therefore this may lead to low demand of shares hence making the share price to fall.

Firm's Specific Factors

the following are the major determinants of share price movements hence the firms share prices may react based on the following determinants; size of the firm, financial fundamentals, price earnings ratio of firms, book value, dividends, dividend yield earnings announcements, dividend cover, share splits, leverage, share turnover, and the previous earnings per share. Ederington & Lee (1995) the changes on this factors may influence some investors to buy shares and sell or hold on to their shares, for example if

earning per share improves an investor may decide to hold on it or buy many shares with the hope that the EPS will continue to improve hence this will lead to increase of the share price because of the increased demand or fall in supply of the shares.

2.5 Summary Theoretical Review

The following theories were reviewed and they include; Efficient Market Theory Fama (1970),Agency problem Theory (Jensen and Meckling1968),information Theory (Bradley Desai and Kim (1983), Free cash flow theory Easterbrook (1984) .The determinants of stock returns they include, Macroeconomic factors, that are rate of interest, GDP growth, inflation, financial debt, stock prices and the degree of market efficiency and firm's specific factors that are size of the firm, financial fundamentals, price earnings ratio of firms, book value, dividends, dividend yield earnings announcements, dividend cover, share splits, leverage, share turnover, and the previous earnings per share.

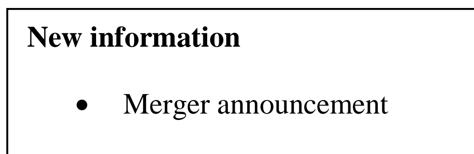
The following empirical studies were also discussed and they include Lichtenberg and Siegel (1990), Ederington & Lee (1995), Akinyomi and Olutoye (2014), Firth (1988), Abdallah (1999), Liang (2009), Cheung and Mun (2009), Moffet and Naserbakht (2012), Dilshad (2012),Mitchell and Lehn (1990), Constatine (2008), Mboroto (2013), Kivindu (2013) Misigah (2013), Gathecha (2014), Constantine (2008), Mailanyi (2014), Mahmood et al (2012).The studies came up with varied conclusions, therefore the current study will be undertaken to confirm the existing literature on Mergers and Stock Returns.

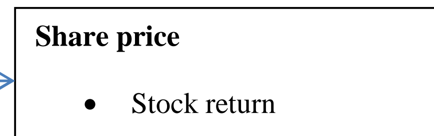
2.6 Conceptual Framework

This is the foundation of where the whole research is based and its made of the dependent variables (share price) they include; Stock Return, while the independent variables are the new information (Merger announcement).

Figure 2.1: Conceptual Framework

Independent variable **Dependent variables**





Source: (Author 2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Methodology

This chapter sets out the methodology applied in the study. Specifically it outlines the population of interest, research design, collection of data instrument and data analysis tools employed in the study.

3.2 Research Design

The aim of this study is to establish the effect of merger announcement on share price of companies listed at the NSE, the research design for this study will be event study methodology which has been applied in merger research since 1970s, this will measure whether there's an abnormal stock price effect associated with an unanticipated event that is mergers which holds that stock returns reflects fast ,rational, unbiased and the risk of the of the adjusted expectation of the company's value in the future periods based on the new information. It will be used to measure the firm's failure or success in the value capture for its investors from merger.

3.3 Populations

The study will look at the nine listed firms on NSE that announced their merger in the years between 2008 and 2017, the population of study will use the 9 merged companies listed in the NSE only listed see Appendix B.

3.4 Data Collections

In this study will purely rely on secondary data will be obtained from the NSE, CMA or other financial intermediaries, hence this will help to have reliable data will help the study to make an empirical conclusion on the effect of merger announcement on share price of firms listed at the NSE, the data will comprise of daily stock prices and market index for 30 days prior and 30 days after merger announcement which will use the event period of 60 days.

3.5 Data Analysis

This study will use an event study methodology for the research, the method is formulated to determine the effect of an event on a certain variable that is dependent, the stock price will be the dependent variable, this study wants to determine if there's an abnormal stock price impact that is related with a certain event by comparing the performance with and without the event, assumption of this event study is that the market must be efficient and this is supported by the efficient market hypothesis theory which shows any change in the stock market price caused by the event will be effective.

3.5.1 Diagnostic Tests

The study is free from statistical bias therefore it will focus on the preliminary statistics test of data, normality, Co-integration and intercorrelation, other primary assumptions that will be tested include unit root test, linearity, normality and independence of the error term therefore to measure the t- test.

3.5.2 Analytical Model

Abnormal return will be calculated using a number of statistical models that are available this may be CAPM (Sharpe & Linter, 1964), Multi factor model and risk adjusted model. The study will focus on using the CAPM model to test if the firms generated abnormal return or not by using the below steps.

Compute the announcement day (0)

The period to be studied, 30 days (15 days prior the event and 15 days after the event).

Calculate daily returns for each of the company; this is measured by sum of change in the market price of a security plus dividend income received over a holding time dividend by the price of a security at the start of the holding period.

$$Rj = \frac{(Pi-Po+D1)}{Po}$$

Calculate the return for a market portfolio, will use the NSE 20 index as a proxy for market portfolio, by calculating daily returns as below.

$$MRi = \frac{Mi-Mo}{Mo}$$

MRi the market return for the day *i*

Mi Market Return for day *i*

Mo Market Return for day *o*

Calculate the abnormal Return for every day under study for every company. Abnormal Return is the actual return less Expected Return This will be done by using CAPM.

$$Rjt = aj + bjRmt + \mu$$

Where

Rj *is* the Return On Stock *j* on day *t*

Aj and *bj* are the intercepts and the slope of the linear relationship between the returns of stock j and Returns of the overall market.

*Rm*is the return on the market index on the day t.

j is the unsystematic component of company's returns.

The efficient diversification reduces the total risk of a portfolio to the point where systematic risk is left hence reducing the equation to below

$$Rjt = aj + bjRmt$$

Abnormal returns denoted $ARjt$, that are computed by subtracting an expected return from actual return $.ARjt - Mri$

Cumulative abnormal return CAR will be estimated by adding the average abnormal return (Avg+ARfrom every day from 30 days before and 30 days after.

$$CARi(\tau 1, \tau 2) = \sum_{t=_1}^{t2} = ARit$$

The computation of CAAR will follow (Panagiotis and Spyridon, 2011) approach and (Dancan and Linnet, 2017) approach.

3.5.3 Reliability Test of the Result

This study will show the relationship between the Stock Return of firms before merger and post-merger by using of T-Test statistics, t test on the event window for all stock will be constructed to determine the abnormal returns.

t = (CAAR (t1,t2)-μ)/S(CAR(t1,t2)

μ being tested for significance is the Abnormal Return which takes zero value. S(CAR(t1,t2) the test statistics for standard error of prediction is computed by dividing the Average Abnormal Return of all the stocks over specified event period (t1,t2) by standard deviation of estimation using the Z statistics.

$CAAR=1/n \sum_{i=1}^{n} CAR(t1, t2)$

The study analyzed if the merger announcement have significant effect on share prices hence if the effect is significant the t statistics is significantly different from 0.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

In this chapter it will show the data analysis from the field and various discussions of the findings .the outcome of the results were shown in graphs and tables to show the major findings, the study used the NSE 20 share index for market index. The market event study methodology was used by the researcher to calculate the abnormal returns attributed to the shareholders on the days of announcement of merger of the listed firms, the method was important because it helps to determine if listed firms can generate abnormal returns to shareholders before the merger announcement and after the merger announcement.

4.2 Response Rate

The sample comprised of ten merged firms that were listed at the time of announcement, they are Kenol Kobil limited, Total Kenya ltd, Unga group ltd, CFC Stanbic Bank, East African Breweries, Kenya commercial Bank, British American insurance company, Diamond trust Bank of Kenya. The study concentrates on only listed merged company at the NSE, since the study used the historical prices obtained from the NSE. The historical prices was be accessed from the NSE data website and past papers of the university of Nairobi library.

4.3 Descriptive Statistics

The study was carried out to show the effect of merger announcement on the stock return on companies listed at the NSE, data on the daily market prices and individual company share prices was collected from various firms for the period of 2008 to 2017 during the event window period of -15days to +15 days. The version 20 statistical package social sciences (SPSS) was used to carry out the analysis for each of the listed companies, the abnormal return was tested at the significance level of 0.05%.Data was analyzed using descriptive statistics.

Table 4.1: Descriptive Statistics

Company	Minimum	Maximum	Mean	Std. Deviation
CFC Stanbic Bank	-.0485	.0545	-.001241	.0214971
KCB	-.0154	.0125	-.000167	.0083023
Total Kenya	-.0466	.0412	-.002380	.0179426
Unga Group	-.0508	.0660	-.003050	.0274873
DTB	-.0395	.0648	-.002251	.0232447
EABL	-.0137	.0152	-.003012	.0077129
Scan Group	-.0728	.0614	-.001584	.0255341
Britam	-.1139	.0761	-.004126	.0415776
Kenol Kobil	-.0717	.0330	-.008310	.0235461

Source: Author (2017)

The results above table shows that there were very minimal spreads between the minimum and the maximum, there was no big variance that was seen in the values, the minimum return of CFC Stanbic was -0.0485 and the maximum values was 0.0545 there was mean return was -0.001241 and the standard deviation was 0.0214971.KCB had a minimum value of -0.0154, maximum value of -0.0125,the mean was -0.000167 and the standard deviation of 0.0083023,Total Kenya's minimum return was -0.0466 with a maximum of 0.0412,a mean of -0.02380 and a standard deviation of 0.0179426, Unga Group had a minimum of -0.0508 a maximum of 0.0660 with a mean of -0.003050 and a standard deviation of 0.0274873, DTB had a minimum of -0.0395,a maximum of 0.0648, a mean of -0.0002251 and a standard deviation of 0.0232447.

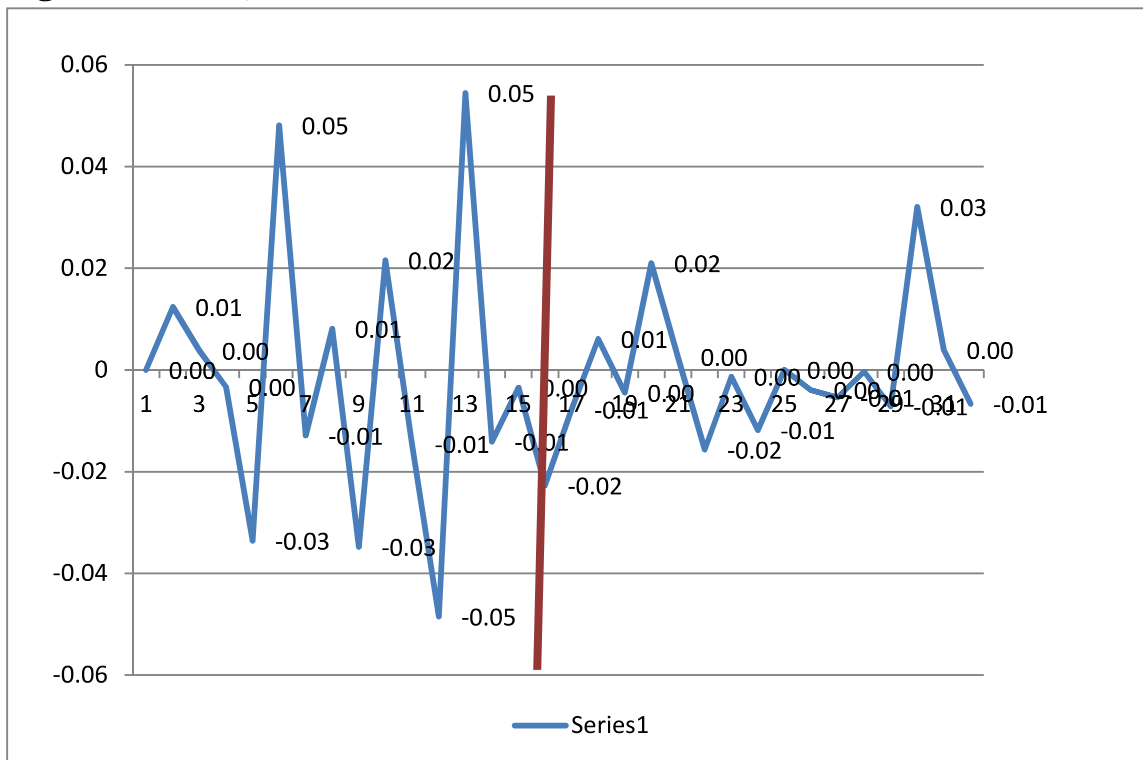
EABL Group had a minimum abnormal return of -0.0137,a maximum of 0.0152, a mean of -0.003012 and a standard deviation of 0.0077129,Scan group had a minimum of -0.0728,maximum of 0.0614,a mean of -0.01584 and a standard deviation of 0.0255341,Britam had a minimum of -0.1139, a maximum of 0.0761, a mean of -0.004126 and a standard deviation of 0.0415776, Kenol Kobil had a minimum of -0.0717, a maximum of 0.0330, a mean of -0.008310 and the standard deviation of 0.0235461.EABL had the highest minimum of -0.0137.while Britam had the lowest minimum of -0.1139, Britam had the highest maximum of 0.0761while KCB had the lowest maximum of 0.0125,Kenol Kobil had the lowest mean of -.003012 and KCB had the highest mean –0.00167, Britam had the highest standard deviation of 0.0415776 while EBL had the lowest standard deviation of 0.0077129 showing that there was a positive stock return after merger announcement.

4.4 Graphical Representations

4.4.1 CFC Stanbic Bank

The figure shows the daily abnormal returns of CFC Stanbic Bank before and after merger announcement.

Figure 4.1: Daily abnormal returns



Source: Author (2017)

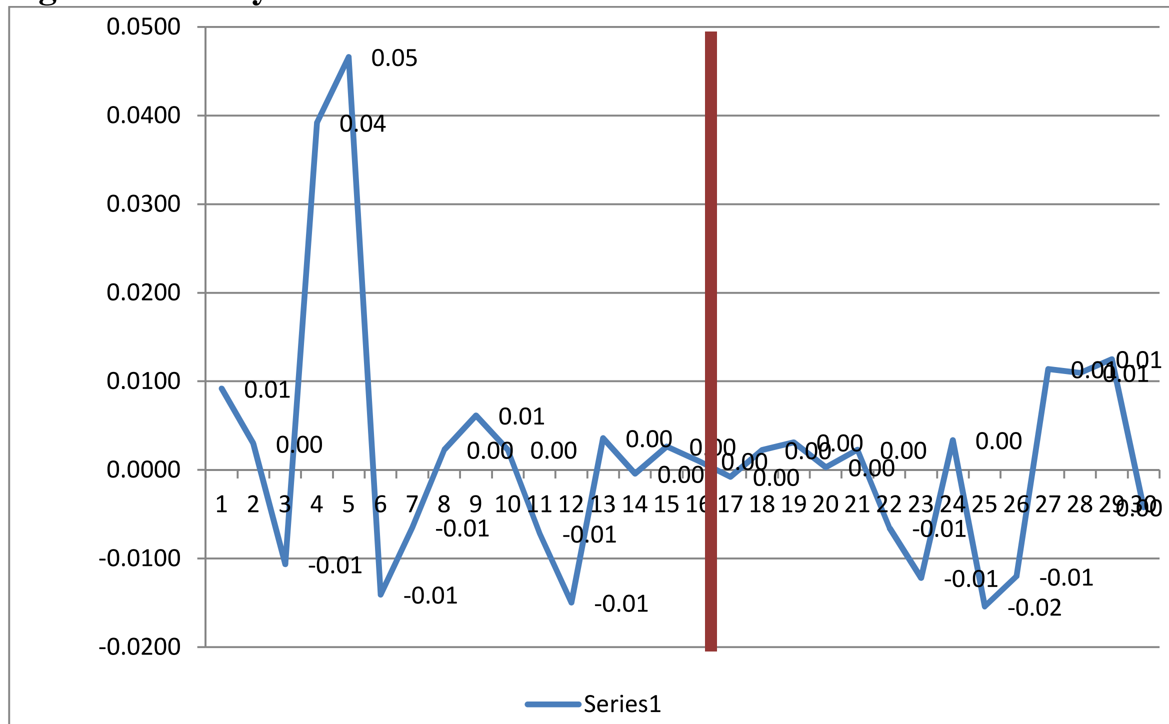
The vertical thick line in the middle shows the exact date when merger was announced before announcement 15 days and after it 15 after announcement, this is to check if there's general changes in the returns of the merged companies. CFC Stanbic Bank announced its merger on June 5th 2008.Graph shows the daily abnormal return of 15days before merger and 15 days after merger announcement, it shows that there was a sharper volatility prior the announcement than that of the after announcement. Before the

announcement on the 10th day there was the highest negative abnormal return of -0.05 3days to announcement, which rose to 0.05 a day before announcement, on the announcement day the investors experienced abnormal return of -0.02 that rose to 0.02 on the 5th day after announcement and later the shareholders observed negative returns of -0.02 on the 12th day after announcement and thereafter for 3days a the returns were negative which rapidly to 0.03 on the 15th day after merger announcement.

4.4.2 KCB Bank

The table below shows the daily abnormal returns of KCB Bank before and after merger announcement.

Figure 4.2: Daily abnormal returns



Source: Author (2017)

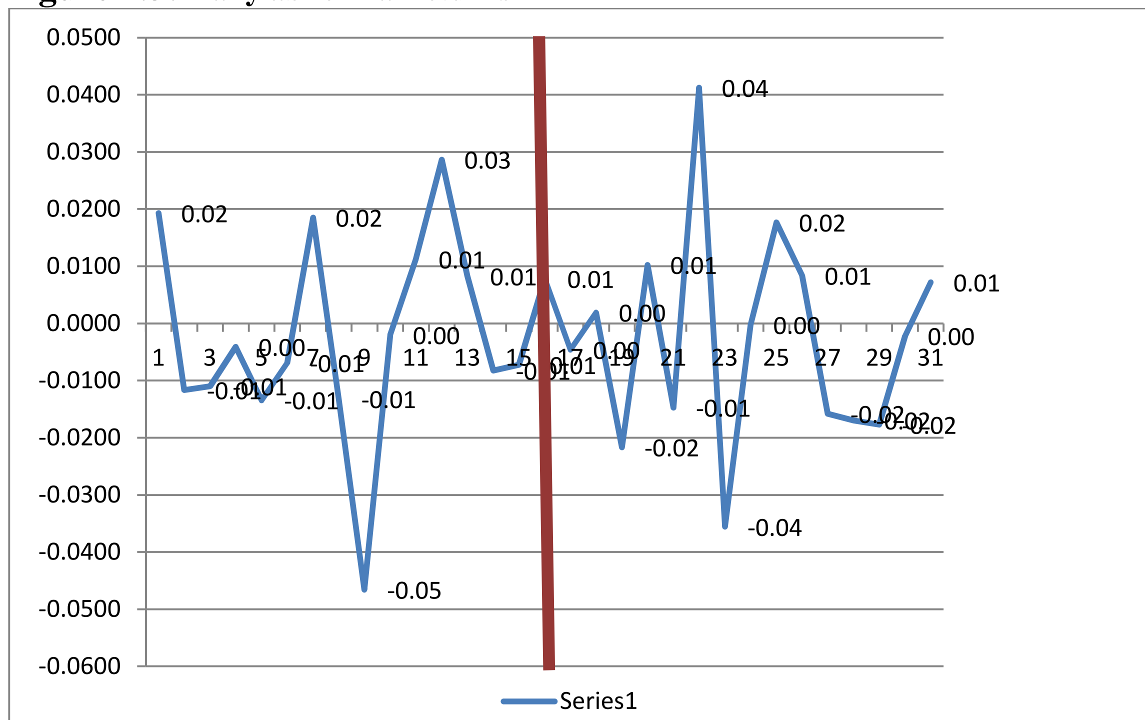
The vertical thick line in the middle shows the exact date when merger was announced before announcement 15 days and after it 15 after announcement, this is to check if

there's general changes in the returns of the merged companies. KCB announced its merger with the savings and loans limited on February 1st 2010. The general trend in the above graph show a deviation in the of abnormal return before merger announcement and after merger announcement periods, before merger announcement the line graph shows the highest positive abnormal return of 0.04 was obtained on the 3rd day and on the 6th day there was a high negative abnormal return -0.01 of stock prices before announcement while on the 9th day after merger the firm experienced the highest abnormal return of 0.04 and the lowest abnormal return of -0.02on the 15th day after announcement. On the announcement day there was a no difference in abnormal return was at 0.00.

4.4.3 Total Kenya

The figure below shows the daily abnormal returns of KCB Bank before and after merger announcement.

Figure 4.3: Daily abnormal returns



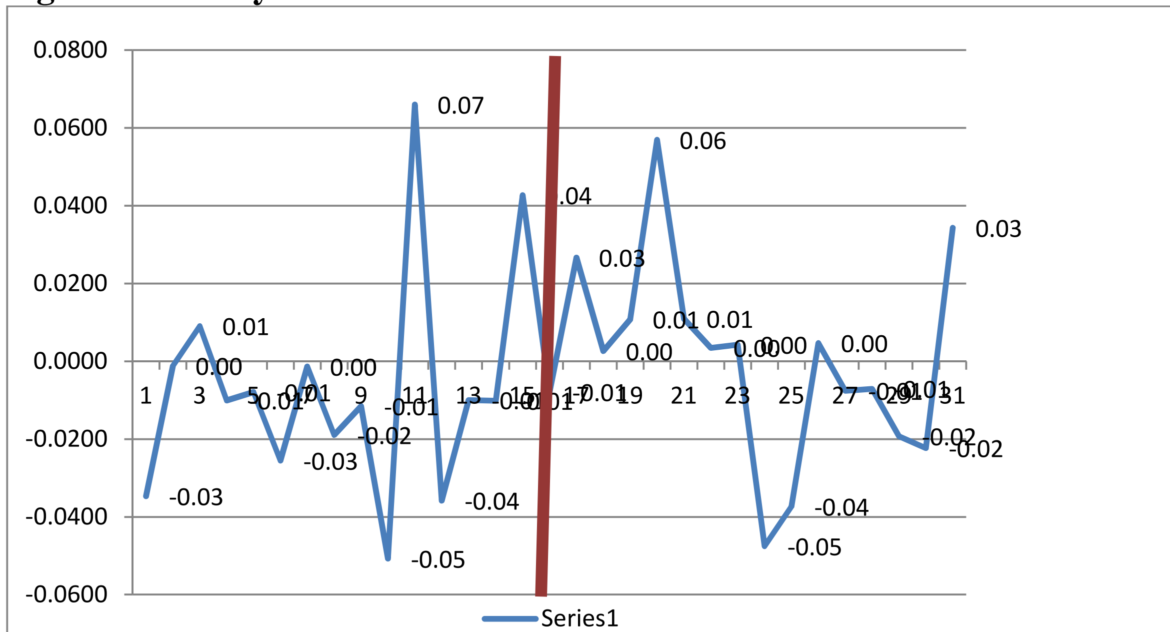
Source: Author (2017)

The vertical thick line in the middle shows the exact date when merger was announced 15 days before announcement and 15 days after announcement to check if there's is general changes in the returns of the merged companies. Total and Chevron oil company announced their merger on November 2nd 2009 and its well illustrated in the below figure. On the 14th day before merger announcement the investors experienced a positive abnormal return at 0.02 that later dropped to a negative abnormal return on the 8th before announcement there was a big negative that was observed at -0.05 and later the returns increased to 0.03 on the one day before announcement at 0.01,on the announcement day there was no significant return that was experienced the return was at 0.00 , on the 3rd day after the announcement there was appositive return of 0.01 that rose to 0.04 on the 5th day after merger announcement which had a big drop to -0.04 on the 6th day and rose to 0.02 on the 9th day after announcement and later abnormal return declined to -0.02 on the 11th day, on the 14th day and thereafter there was a very positive abnormal return was experienced that rose to 0.01 this fluctuations in the abnormal returns shows that there was positive reaction towards the merger and therefore investors reacted differently on different day.

4.4.4 Unga Group

The table below shows the daily abnormal returns of Unga Group before merger announcement and after merger announcement.

Figure 4.4: Daily abnormal returns



Source: Author (2017)

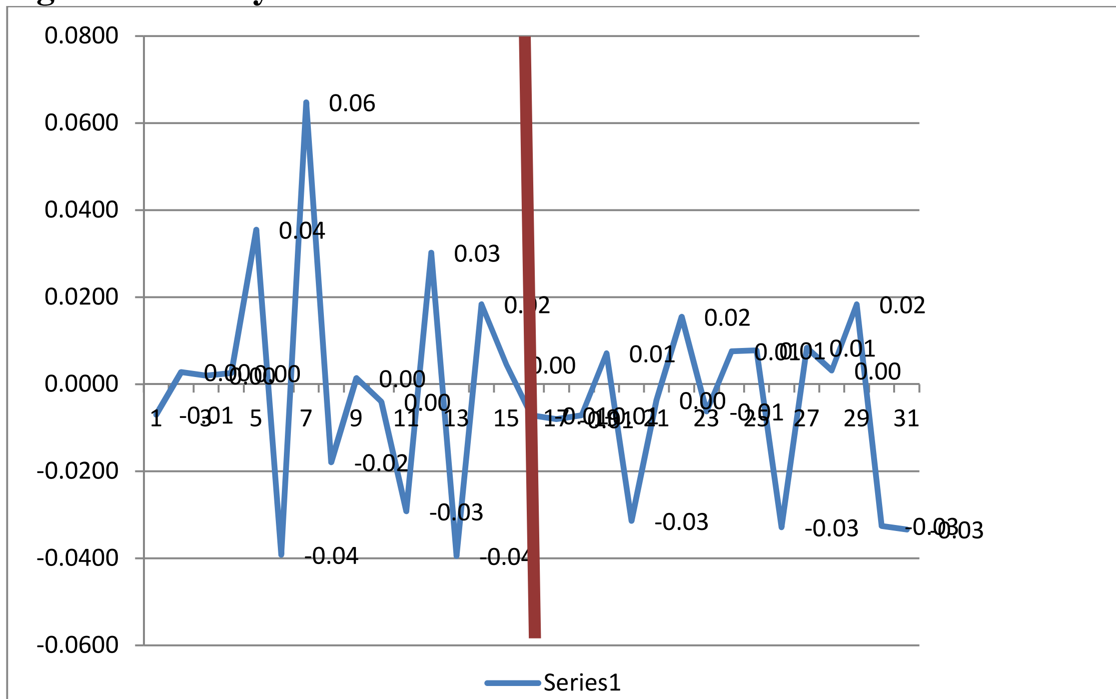
The vertical thick line in the middle shows the exact date when merger was announced 15 days before announcement and 15 days after announcement to check if there's is general changes in the returns of the merged companies. Unga Group announced its merger Ennsvalley Bakery Limited on February 11th 2014 and according to the above graph there was not significance difference in abnormal return -0.03 on the 14th day before announcement .the highest negative abnormal return before merger was on the sixth day at -0.05 that increased to 0.07 on the 4th day before announcement which later declined to -0.04 on the 2nd day before announcement, on the announcement day there was a negative abnormal return at -0.01, while the highest positive abnormal return before merger was on the 3rd the investors experienced a positive abnormal return 0.06 that dropped to -0.05 which showed no change 13th day at 0.00 and dropped on the 15th day

after announcements to and there was an increase thereafter that was experienced by the shareholders .

4.4.5 DTB

The figure below shows the daily abnormal returns of DTB Bank before and after merger announcement.

Figure 4.5: Daily abnormal returns



Source: Author (2017)

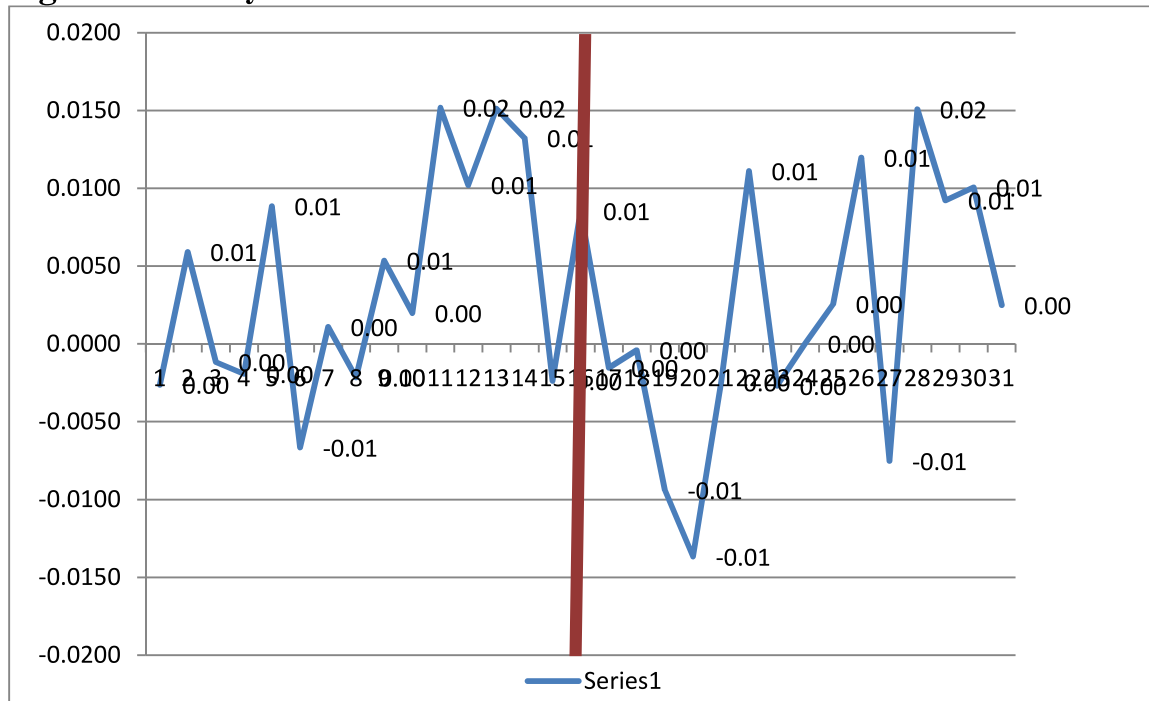
The vertical thick line in the middle shows the day when merger was announced 15 days before announcement and 15 days after announcement. Diamond Trust Bank recently merged this year with premier savings and finance limited hence they announced about their merger on 28th July 2017.The graph above shows on the 10th day before merger announcements there was a high negative abnormal returns at -0.04 respectively and on

the 9th day before announcement there was every high abnormal return at 0.06 showing that the investors were really investing in big numbers, while on the announcement date there was a negative abnormal return of -0.01 and on the 6th day after merger announcement there was a positive abnormal return on 0.02 and there was a drop on the 13th day of -0.03 that was observed by the investors, on the 14th day the abnormal returns increased to 0.01 and on the graph where on the 14th day after announcement the investors experienced a positive abnormal return of 0.02 and thereafter the drop of abnormal returns of -0.03 were experienced.

4.4.6 EABL

The figure below shows the daily abnormal returns of EABL before and after merger announcement.

Figure 4.6: Daily abnormal returns



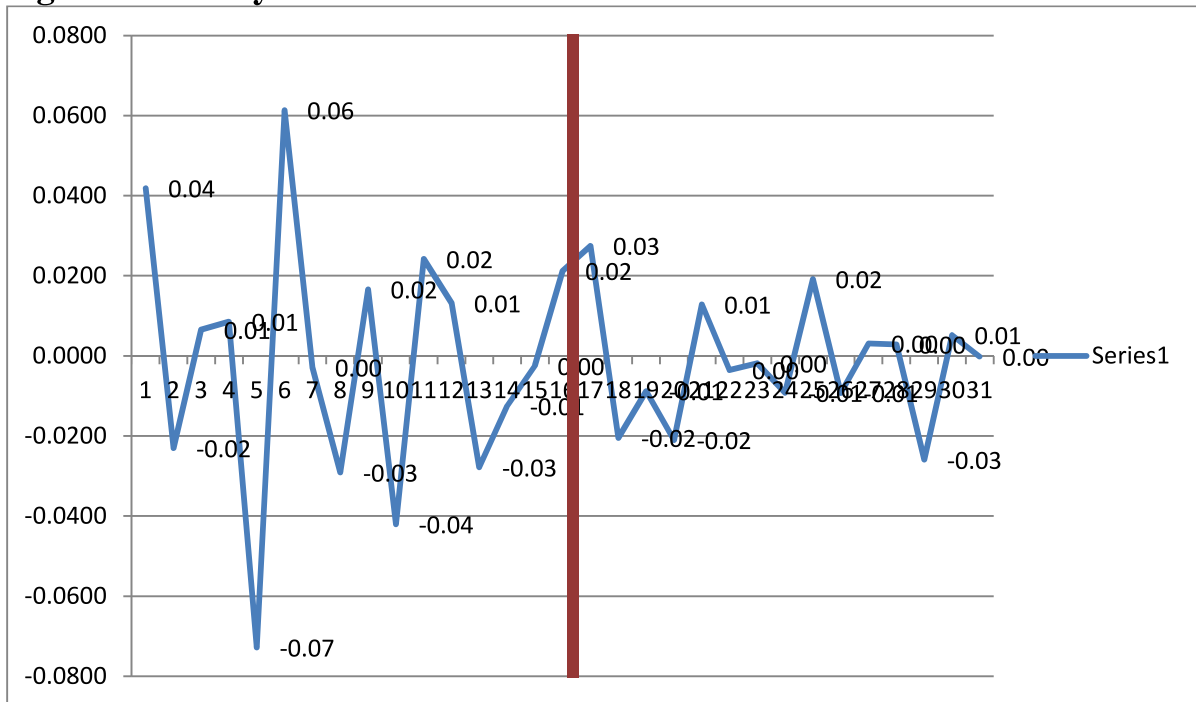
Source: Author (2017)

The vertical thick line in the middle shows the exact date when merger was announced before announcement 15 days and after it 15 after announcement, this is to check if there's general changes in the returns of the merged companies. The announcement of the EABL merger with Serengeti Breweries was made on the October 26th 2010.the above graph shows the abnormal returns during the event window of -15 days and +15 days. the graph shows that the shareholders experienced positive abnormal returns, hence this return with positive significant was on the 5th day before merger announcement at 0.02,while there was a negative abnormal return on a day before merger announcement, on the merger announcement day there was a positive abnormal return of 0.01 which later dropped to -0.01 on the 5th day after announcement and increased to 0.01 on the 7th day after announcement and there was a negative abnormal return that was experienced on the 11th day after announcements at -0.01 and thereafter a positive abnormal return was experienced by the shareholders and increased on the 13th day to 0.02 which started to drop from the 14th day from 0.01 towards the 15th day this shows that the investors were not reacting positively to the merger announcement towards the event period.

4.4.7 Scan Group

The table below shows the daily abnormal returns of Scan Group before and after merger announcement

Figure 4.7: Daily abnormal returns



Source: Author (2017)

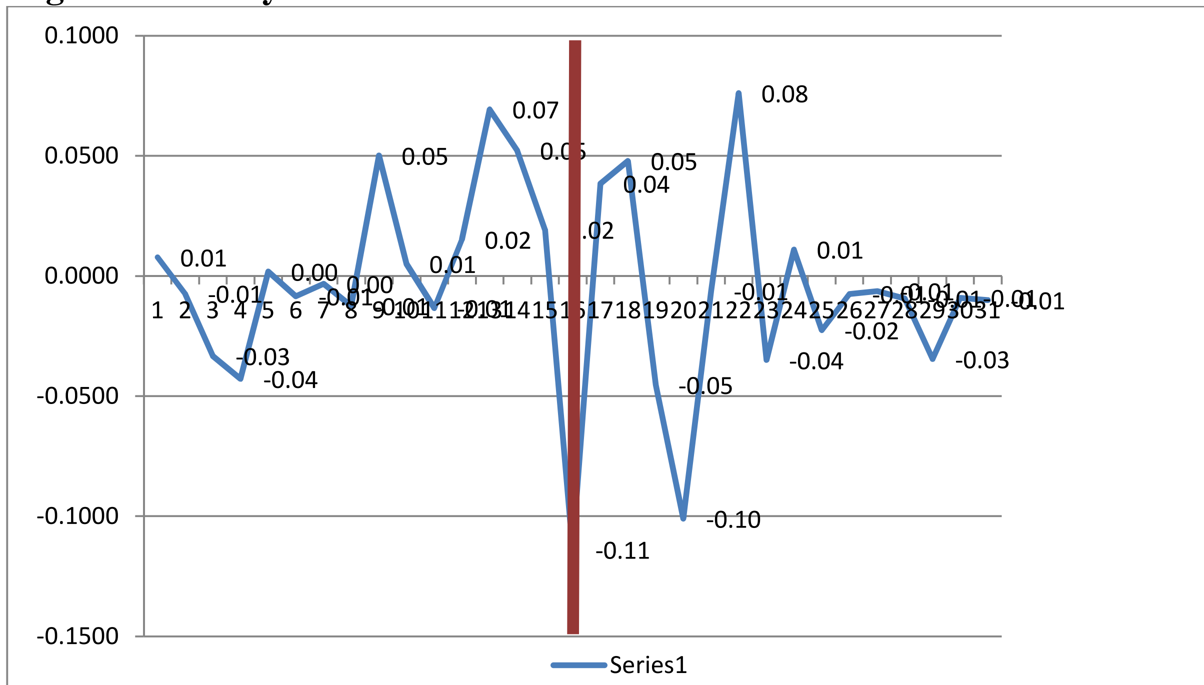
The vertical thick line in the middle shows the exact date when merger was announced before announcement 15 days and after it 15 after announcement, this is to check if there's general changes in the returns of the merged companies. Cavendish Square holdings was made on the June 27th 2015.the merger news led to the trend shows that the abnormal returns varies from positive to negative increase and decrease before and after merger announcement.-0.07 was the highest negative abnormal returns that was experienced by the investors on the 11th day before the merger announcement and there was sudden positive increase of the abnormal return before merger announcement to 0.06, on the announcement day the Scan Group there was a negative abnormal return of -0.01 that was significant. On the announcement date, there was a positive increase of the abnormal return 0.02 on the 2nd day after announcement the abnormal return declined to - 0.02 on the 3rd day later there was a positive abnormal return that was experienced to

0.02 and thereafter there was a decrease of the abnormal return to -0.03 on the 13th day after merger announcement and thereafter the investors experienced abnormal returns increase to 0.01 on the 14th day which was an indication that merger announcement had a positive effect on the share prices.

4.4.8 Britam

The figure below shows the daily abnormal returns of Britam before and after merger announcement.

Figure 4.8: Daily Abnormal Returns



Source: Author (2017)

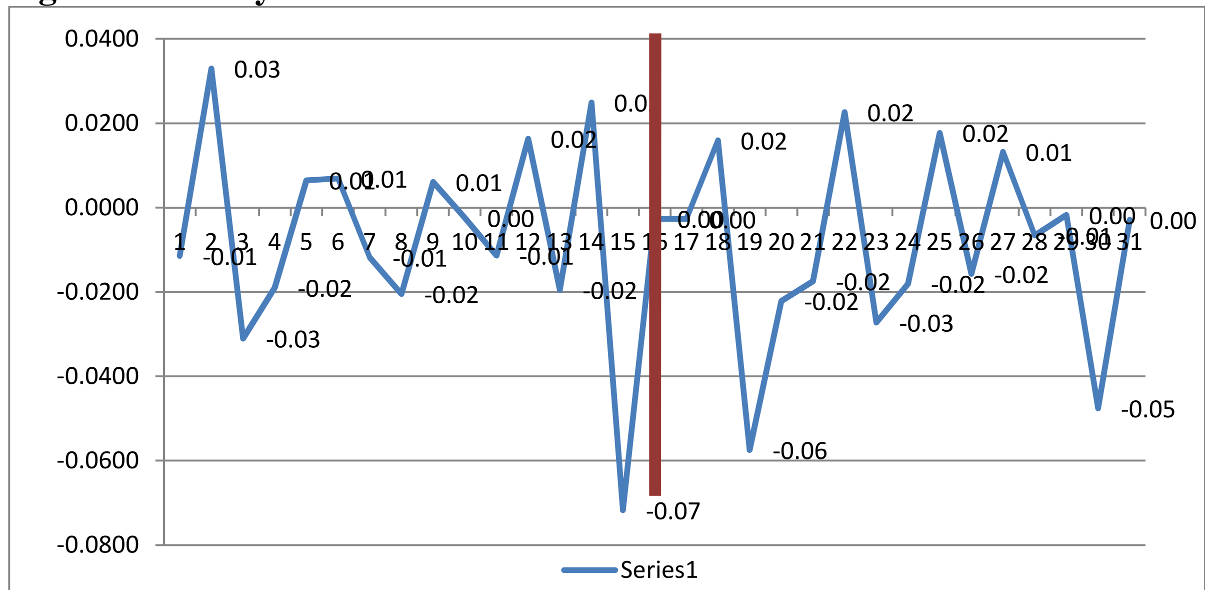
British American Investments Company announced its merger with Real insurance company on November 22nd 2013.on the 8th day before merger there was an insignificant abnormal return that was experienced by shareholder -0.04 and also gradual increase that was observed at -0.03 on the 11th before merger there was a significant positive abnormal

return that was observed at 0.07,on the announcement day there was a very negative abnormal return at -0.11,thereafter there was an increase in abnormal return on the 1st day after merger announcement of 0.02 and increased to 0.05 on the 3rd day and there was an insignificant negative abnormal to -0.10,a positive trend of the abnormal returns changes was experienced from the 6th day after merger from -0.05 to 0.08 which was the highest positive abnormal return after a merger announcement of the two firms, on the 7th day to the 15th day the investors started experiencing only negative abnormal returns of between -0.04 to 0.01.

4.4.9 Kenol Kobil

The figure below shows the daily abnormal returns of Kenol Kobil before and after merger announcement.

Figure 4.9: Daily Abnormal Returns



Source: Author (2017)

The vertical thick line in the middle shows the exact date when merger was announced 15 days before announcement and 15 days after announcement to check if there's is general

changes in the returns of the merged companies. Kenol and Kobil announced their merger on January 2nd 2008. The graph shows the event window of the daily abnormal returns, the graph shows that the daily abnormal returns increase and decrease as a result of the announcement of merger. on the 13th and the 14th day before merger the firm experienced the highest positive abnormal return of 0.03 which decreased on the 3rd day to -0.03 this trend fluctuated until on the 2nd and the 3rd day before announcement there was a positive rise of abnormal return that was observed at 0.02.on one day before merger announcement, a very high negative abnormal return was experienced by the firm at -0.07 showing that the investors did not invest in the firms share price due to the news, later there was a significant rise from -0.07 to 0.00 on the announcement day that rose to 0.02 on the 2nd day after the merger announcement, on the on the 11th day after announcement there was a positive abnormal return of 0.01 that was observed which later negatively dropped on the 13th after announcement to -0.01 and further decreased to -0.05 0n the 14th day and on the 15th day the there was an improved rise of abnormal return that was experienced at -0.00 after the merger announcement this shows that the investors were starting to invest hence the announcement affected the share price positively.

4.5 Paired T-Test

This shows the test results for comparing the share prices before merger announcement (shown as 1) and after merger announcement (shown as 2) were made in a period of 0 days, the abnormal returns was the difference in returns that was tested by using 0.05% significance level. As shown in the below table.

Table 4.2: Paired t-test results

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	CFC – KCB	-.0010740	.0227019	.0040774	-.0094011	.0072531	-.263	30	.794
Pair 2	Total Kenya - Unga Group	-.0006700	.0329427	.0059167	-.0114135	.0127535	.113	30	.911
Pair 3	DTB – EABL	-.0052625	.0240718	.0043234	-.0140921	.0035672	-1.217	30	.233
Pair 4	Scan Group – Britam	-.0025413	.0504489	.0090609	-.0159635	.0210461	.280	30	.781
Pair 5	Kenol Kobil - Total Kenya	-.0059301	.0263387	.0047306	-.0155912	.0037310	-1.254	30	.220

Source: Author (2017)

CFC and KCB t statistics is a large negative value at -0.263 that correlates to a very big significance value of 0.794 this means greater than significance value that is 0.05, the two firms is statistically significant since 0.794 is higher than level of significance 0.05, the mean value -.0010740 and the 95% confidence interval of difference is -0.0094011and 0.0072531 meaning that the abnormal returns before merger announcement was low than the abnormal returns after the announcement. Total Kenya and Unga Group paired t value was - 0.113, that correlates to a significance value of 0.911grater than 0.05 significance value, hence no significance difference between the two firms since 0.911 is greater than 0.05,this two companies comparison shows the mean value of -0.0006700 and the 95%

confidence interval of difference is it the actual mean difference between total abnormal return for before merger announcement and after announcement is between -0.0114135 and 0.0127535 meaning that the abnormal returns before merger announcement was low than the abnormal returns after the announcement.

DTB and EALB paired t values was -1.217that correlates to a significance value of 0.233grater than 0.05 significance value, the mean value -.00052625 and the 95% confidence interval of difference is -.0140921 and.0035672 this shows that the abnormal return increased after the merger announcement. Scan Group and Britam had a t value of 0.280 that correlates to a significance value of0.781 that was still greater than 0.05 significant values the mean value -0.0025413 and the 95% confidence interval of difference is -.0159635and 0.0210461this shows that there was an increase of the abnormal return after the announcement was made. Kenol Kobil and Total Kenya t test paired value was -1.254 that correlates with the significance value of 0.220 which was greater than the significance level 0.05, the mean value was -0.0593010, and the 95% confidence interval of -0.0155912 and 0.0037310this shows that there was a significant increase in abnormal return after merger announcement hence making investors to invest more.

4.6 Interpretation of the Findings

The study sought to determine the effect of merger announcement on stock returns of firms listed at the Nairobi Securities Exchange. The study analyzed the reaction of stock returns of 9 listed firms 15 days before merger announcement and 15 days after the

merger announcement. The 9 firms are the ones that had announced their merger between the year 2008 and 2017.The study discussed the abnormality of the stock returns and the cumulative abnormality. In order to establish the abnormal returns of the listed firms that had merged their stocks between 2008 and 2017, the difference between the firms' actual stock returns and expected returns was calculated. the study found that most of the listed companies under study experienced abnormal returns that varied from positive to negative they were EABL, Britam, Kenol Kobil, Total Kenya exhibited positive abnormal returns after the merger hence the investors responded positively when the firms combined, therefore positive results are proved from a successful merger, while in some few firms as KCB, DTB, Scan Group, the returns did not show improved abnormal returns after the merger.

The research findings showed that there were positive changes on the stock prices after merger announcement, sometime the share prices could drop immediately after the news about merger goes out to the investors and sometime positive abnormal returns were experienced by the shareholders due to the merger announcement. In his research Ellert (1976) he observed that the newly firms stock holders received cumulatively positive abnormal returns that was earned after merger announcement, however some returns were positive but still insignificant.

The research findings established the abnormal returns of the 9 firms under study showed significant changes of returns within the period of study that was 30 days, the research implied that the after merger outcome was wealth creating project for investors of the

merged firms. Baraza (2013) investigated the effect of merger announcement on stock return and the study concluded that there was a significant relationship that existed between the announcement of merger and the stock price hence leads to increase of investors. According to Gathecha (2014) in his study on the effect of information content of merger announcement for firms listed at the NSE he concluded in his findings that shareholders wealth is positively affected by the announcement hence the abnormal returns are positive after the announcements. There was a weak relationship that was observed between the cumulative share returns prior the merger and after the merger announcement.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, the conclusions drawn by the study, recommendations for policy change and suggestions for future research. The study then presents the major limitations of the study.

5.2 Summary of Findings

The study sought to determine the effect of merger announcement on stock returns of firms listed at the Nairobi Securities Exchange. The study analyzed the reaction of stock returns of 9 listed firms 15 days before merger announcement and 15 days after the merger announcement. The 9 firms are the ones that had merged their stocks between the year 2008 and 2017.The study discussed the abnormality of the stock returns.

The study found out that EABL, Britam, Kenl Kobil, Total Kenya exhibited positive abnormal returns after the merger hence the investors responded positively hence increased returns when the firms combined, therefore that's a prove of positive results from successful merger. While in some few firms as KCB, DTB, Scan Group, the returns did not show improved abnormal returns after the merger. The research findings showed that there were positive changes on the stock prices after merger announcement, sometime the share prices could drop immediately after the news about merger goes out to the investors and sometime positive abnormal returns were experienced by the

shareholders due to the merger announcement. The reaction of the stocks to the merger announcement was very fast which implies that the Nairobi Securities Exchange is efficient.

The abnormality was mostly noted 1 day before merger announcement to 1 day after the merger announcement. However, the increase was much faster after the mergers were announced. These findings indicate that merger announcement had a cumulative positive effect on the stock returns for firms listed at the NSE. This contrary to the findings of Muimania (2015), Popovici (2014), Bwihili (2013) and Potreus (2010) Constantine (2008), who concluded that in their findings that merger announcement had a cumulative negative effect on the stock returns.

5.3 Conclusion

The study concludes that the merger announcement has a cumulative positive effect on stock returns of firms listed at the Nairobi Securities Exchange. The study also concludes that for some companies the merger announcement had positive effect on the stock returns while other companies the announcement had no effect on the stock returns of the listed companies. The study also concludes that this reaction were statistically significant, hence had significant effect on the total accumulated return for some listed companies before and after merger announcement hence concluded that merger were wealth creation on the short term period to investors at the NSE. The study therefore concluded that the merged firms will take some time before they can comfortably benefit

from the combination of different firms. The quick reaction to the announcement indicates that the Nairobi Securities Exchange is efficient.

5.4 Recommendations

According to the research finding s they show that treating merger as a short term predictor for capital gains .listed companies should make their decisions carefully before merging. Capital Markets Authority should conduct more studies on the real impact of the merger announcement as a way of encouraging more firms to merger their stocks. The study found out that there was an abnormal reaction to merger announcement though not statistically significant. This can be attributed to speculative trading at the Nairobi Securities Exchange.

This indicates a need for investor education as way of reducing speculative trading which results to abnormal reaction. The capital Markets Authority should develop policies, rules, regulations and trading guidelines to monitor the trading activities of the Nairobi Securities Exchange as this make the market efficient and reduce abnormalities that make the investors loose or gain unfairly.

The research recommends that tools of synergy assessment that are non-market should be deployed by the regulators based in a bid to evaluate the performance of merged firms this will help to establish the reasonable conclusions on before and after merger event.

5.5 Limitation of the Study

The researcher found it difficult to obtain the secondary data because the contact people at the NSE had busy working schedules which derailed the completion of the data collection process. The researcher made extra effort in reminding contact person on the urgency of the data in order to meet academic deadlines.

The study was mainly dependent on secondary data available, this means that the accuracy of the data provided was dependent on the information available. Further, the researcher found it very difficult to obtain all the needed data from the Nairobi Securities Exchange. The researcher was therefore compelled to purchase some of the data from a licensed vendor. The vendor had very many mixed data from 2008 to 2017 therefore, the researcher took long to compile and compute the returns, abnormal returns and cumulative abnormal returns.

5.6 Suggestions for Further Research

The researcher only considered a 46 day event window. That is 15 days before merger announcement and 15 days after merger announcement hence was a relatively a short study period. The researcher recommends that in future, a longer period should be considered since the effect of merger announcement might be felt even beyond the ±46 days.

Further studies in future can be done using other variables like including the dividend expectations, the size of the firm this will help to determine if when other factors are considered to show if the market could still react positively towards the merger announcement. Further studies should be done to enable the researcher to understand factors that come along when the firms shareholders and mangers think about merging, the future study will help show the reason to why there are non-achievement economies of scale after the combination of the firms, also the future studies should check on the effect of managerial and corporate culture changes on financial performance and general stability of the organization after conducting a merger activity.

The researcher analyzed the data on the assumption that merger announcement was the only major event that occurred and affected the stock returns within that event period. However, since the study was conducted over a long period of time between 2008 and 2017, other studies should be conducted on the other possible events that could have affected stock returns.

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APPENDICES

APPENDIX A: LISTED COMPANIES

1	A. Baumann and Company Limited	Investments
2	Athi River Mining	Building Materials
3	Bamburi Cement Limited	Building Materials
4	Barclays Bank of Kenya Limited	Banking
5	British American Tobacco Kenya Limited	TobaccoManufacturing and
6	British Oxygen Company Kenya Limited	Industrial
7	C.F.C Bank Limited	Banking
8	Car and General Kenya Limited	Automotive
9	Carbacid Investments Limited	Investments
10	City Trust Limited	Investments
11	CMC Holdings Limited	Automotive Manufacturing and
12	Crown Berger Limited	Industrial
13	Diamond Trust Bank Kenya Limited	Banking Manufacturing and
14	Dunlop Kenya	Industrial
15	Eaagads Limited	Agriculture
16	East African Breweries Limited	Beverages Manufacturing and
17	East African Cables Limited	Industrial
18	East African Portland Cement Limited	Building Materials
19	Express Limited	Shipping
20	George Williamson Kenya Limited	Agriculture
21	Housing Finance Company Limited	Banking
22	Hutchings Biemer Limited	Furniture
23	I.C.D.C Investments Company Limited	Investments
24	Jubilee Insurance Company Limited	Insurance
25	Kakuzi	Agriculture
26	Kapchorua Tea Company Limited	Agriculture
27	Kenya Airways Limited	Transportation

28	Kenya commercial Bank	Banking
29	Kenya Oil Company Limited	Natural Gas and Oil
30	Kenya Orchards Limited	Agriculture
31	Kenya Power and Lighting Company Limited	Utilities
32	Limuru Tea Company Limited	Agriculture
33	Marshalls East Africa Ltd	Automotives
34	Mumias Sugar Company Limited	Food
35	Nation Media Group	Media and broadcasting
36	National Bank of Kenya Limited	Broadcasting Banking
37	National Industrial Credit Bank	Banking
38	Pan Africa Insurance	Insurance
39	REA Vipingo Plantations Limited	Agriculture
40	Sameer Africa (formally Firestone East A)	Automotives
41	Sasini Tea and Coffee Limited	Agriculture
42	Standard Chartered Bank Kenya Limited	Banking
43	Standard Newspapers Group	Media and Broadcasting
44	Total Kenya Limited	Natural Gas and Oil
45	Tourism Promotion Services Limited	Hotels, Casinos, Resorts
46	Uchumi Supermarket Limited	Retail and Wholesale
47	Unga Group Limited	Food
48	Unilever Tea Kenya (formally Brooke Bond	Agriculture

APPENDIX B: MERGED COMPANIES

Company	Merged with	Current Name	Announcement Date
Total Kenya Ltd	Chevron Kenya Limited	Total Kenya Ltd	02.11.2009
Scan group	Cavendish Square Holdings	Scan group	27.06.2015
Unga Ltd	Enns Valley Bakery	Unga Group Ltd	11.02.2014
Kenya Oil Company	Kenol Kobil	Kenol Kobil	02.01.2008
CFC Bank	Stanbic Bank Ltd	CFC Stanbic Bank Ltd	05.06.2008
East African Breweries	Serengeti Breweries Ltd	East African Breweries LTD	26.10.2010
British American Investments Company	Real Insurance Company	Britam Insurance	22.11.2013
Diamond Trust Bank of Kenya Ltd	Premier Savings & Finance Ltd.	Diamond Trust Bank of Kenya Ltd	28.07.2017
Savings and loans Kenya Ltd.	Kenya Commercial Bank Ltd.	Kenya Commercial Bank Ltd	01.02.2010

APPENDIX C: SHARE RETURNS BEFORE MERGER ANNOUNCEMENTS

CFC	KCB	Total Kenya	Unga Group	DTB	EABL	Scan Group	Britam	Kenol Kobil
108.00	20.50	29.75	17.95	146.00	180.00	43.75	9.45	111.00
109.00	20.50	29.25	18.00	150.00	187.00	43.75	9.45	109.00
109.00	20.50	29.50	19.15	150.00	194.00	45.50	9.50	110.00
109.00	20.50	29.50	19.15	146.00	194.00	44.50	9.45	112.00
109.00	20.50	29.00	18.45	154.50	194.00	44.25	9.90	112.00
115.00	20.75	29.75	18.65	152.00	195.00	44.00	10.10	112.00
116.00	20.75	29.00	19.25	152.50	195.00	43.75	9.95	112.00
116.00	20.50	29.00	19.45	158.50	195.00	44.25	9.95	114.00
126.00	20.50	30.00	19.50	155.00	195.00	44.50	10.10	114.00
121.00	20.50	28.75	19.40	156.00	195.00	45.25	10.10	115.00
119.00	20.50	29.50	18.95	158.00	195.00	46.00	10.15	113.00
116.00	20.25	29.25	19.25	164.00	196.00	45.75	10.15	115.00
114.00	20.00	29.00	19.15	160.00	195.00	45.25	10.10	115.00
115.00	20.25	29.25	19.45	160.00	188.00	45.00	10.15	115.00
114.00	20.25	29.75	19.95	161.50	189.00	45.25	10.35	115.00
115.00	20.50	29.25	20.00	161.50	190.00	45.00	10.65	115.00
116.00	20.50	29.75	19.45	161.50	190.00	47.00	10.80	114.00
116.00	20.75	29.75	19.65	163.00	192.00	46.00	10.80	118.00
116.00	21.00	29.75	19.95	164.50	192.00	46.50	10.55	115.00
112.00	21.00	29.75	19.95	166.00	192.00	47.00	10.20	113.00
118.00	22.00	29.25	20.00	173.00	194.00	43.75	10.30	114.00
116.00	23.25	29.25	19.75	167.50	194.00	46.75	10.30	115.00
118.00	23.00	29.75	20.00	179.50	194.00	46.75	10.35	114.00
114.00	22.75	29.50	20.00	177.50	194.00	45.50	10.30	112.00
116.00	22.75	28.00	20.00	179.00	196.00	46.25	10.90	113.00
114.00	22.75	28.00	19.05	179.50	197.00	44.25	11.05	113.00
109.00	22.75	28.50	20.50	175.50	201.00	45.50	11.00	112.00
115.00	22.50	29.50	20.00	182.00	204.00	46.25	11.25	114.00
116.00	22.00	29.75	20.00	176.00	208.00	45.25	12.10	112.00
118.00	22.00	29.50	20.00	180.50	211.00	44.75	12.85	115.00
118.00	22.00	29.25	21.00	182.50	212.00	44.75	13.20	107.00

Source: Nairobi Securities exchange

APPENDIX D: SHARE RETURNS AFTER MERGER ANNOUNCEMENTS

CFC	KCB	Total Kenya	Unga Group	DTB	EABL	Scan Group	Britam	Kenol Kobil
117.00	22.00	29.00	21.00	182.50	211.00	43.75	14.75	107.00
120.00	22.00	29.00	21.75	182.50	211.00	45.00	15.45	107.00
119.00	22.00	29.00	22.00	182.50	212.00	44.25	16.35	109.00
119.00	22.00	28.50	22.50	185.00	211.00	44.00	15.75	103.00
119.00	22.00	29.00	24.00	180.50	209.00	43.25	14.25	101.00
118.00	22.00	28.75	24.50	181.00	208.00	44.00	14.25	99.50
118.00	22.00	30.00	24.75	185.00	211.00	44.00	15.45	102.00
117.00	21.75	29.00	25.00	185.00	211.00	44.00	15.00	99.50
117.00	21.50	29.00	24.00	187.50	212.00	43.75	15.25	98.00
117.00	21.50	29.25	23.25	190.00	212.00	44.75	15.00	100.00
116.00	21.00	29.50	23.50	185.00	215.00	44.50	15.00	98.50
116.00	20.50	29.25	23.50	188.00	213.00	44.75	15.00	100.00
115.00	20.75	29.00	23.50	190.00	217.00	45.00	14.95	99.50
118.00	21.00	28.50	23.25	195.00	219.00	44.00	14.55	99.50
118.00	21.25	28.75	23.00	190.00	221.00	44.50	14.50	95.00
117.00	21.25	29.00	24.00	185.00	222.00	44.75	14.45	95.00
117.00	21.00	28.75	22.50	185.00	224.00	45.00	14.45	88.00
114.00	20.75	29.50	23.50	190.00	225.00	44.50	14.45	85.50
111.00	20.50	29.50	23.00	188.50	225.00	44.25	14.45	91.00
118.00	20.25	29.25	22.75	186.50	223.00	44.25	14.65	93.00
115.00	20.25	29.25	23.00	185.50	219.00	45.00	14.65	93.00
115.00	20.50	29.00	24.75	188.50	216.00	49.00	14.90	92.00
115.00	20.50	28.75	23.00	184.00	216.00	49.75	15.15	90.00
114.00	20.50	29.00	23.00	182.00	216.00	50.50	15.35	90.00
111.00	20.50	28.75	23.00	180.00	216.00	51.50	15.25	88.00
115.00	20.75	28.50	23.00	183.00	212.00	51.00	15.15	90.00
113.00	22.00	28.75	23.00	178.50	208.00	49.50	15.40	95.00
113.00	22.50	28.50	24.00	177.50	206.00	48.00	15.90	93.00
111.00	22.25	28.75	24.00	179.00	208.00	48.00	16.05	96.50
111.00	21.75	28.75	23.00	182.50	204.00	47.75	16.15	95.50

Source: Nairobi Securities exchange