THE RELATIONSHIP BETWEEN LEVERAGE AND FINANCIAL PERFORMANCE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE

By

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DECLARATION

I hereby declare this research project is my original work and has not been presented previously for a degree in any other university.

Signature……………………………….. Date……………………

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The research project report has been submitted with my approval as a university supervisor.

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May the Almighty God bless you all and extent you boundaries.

DEDICATION

I dedicate this research work to my parents my father Ndauti Ngui for working hard to pay the school fees, my loving mother Agnes Koki for instilling the culture of reading hard while in class two and selling that cow to buy school uniforms.

To my daughter Faith Mutheu let it be an inspiration to work hard.

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ABSTRACT

Leverage is a keystone mechanism that can be deployed by management to maximize shareholder return and boost financial performance. Where cash is not available for investing in projects that create value for the organization, companies may apply leverage in order to tap into opportunities that generate additional returns for the organization. These kinds of projects should maximize value for shareholders in the long run. In addition, the use of leverage in the capital structure lowers the company's weighted average cost of capital and provides tax gains for the company.

Leverage comes at a price. When leverage increases, studies indicate that the risk attributable to the company also increases. Leverage can raises the chances of bankruptcy for the organization. Cash-flows are directed towards the servicing of debts regardless of whether the company makes a profit or not.

This study will seek to establish the relationship between leverage and performance of listed companies at the Nairobi Stock Exchange with reference to the period 2003-2007 when the NSE experienced an unprecedented boom. Companies at the market did take up different forms of debt to maximize returns and the researcher will seek to find out the extent of relationship between the debt and the resulting performance.

The main sources of literature will be: books, internet sources, journals, annual financial reports and press reports. A descriptive research design will be adopted in the collection of data. Data will be collected using interviews and secondary sources such as annual financial reports of the targeted companies. Analysis will be done with the use of SPSS and findings presented in the form of pie charts, graphs and tables.

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ABBREVIATIONS

CMA- Capital Market Authority

DPS –Dividends per Share

EBIT – Earnings Before Interest & Tax

EPS – Earnings per Share

ICAPK – Institute of Certified Public Accountants of Kenya

NSE – Nairobi Stock Exchange

ROA – Return on Asset

ROE – Return on Equity

SPSS – Statistical Package for the Social Sciences