THE EFFECT OF RIGHTS ISSUE ON FIRMS' SHARE PERFORMANCE: A CASE OF KENYAN LISTED COMPANIES

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EGERTON UNIVERSITY

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DECLARATION AND APPROVAL

DECLARATION

This is my original work and has not been submitted to any other institution of higher learning.

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SUPERVISOR'S APPROVAL

This Research Project Report has been submitted with my approval as University Supervisor.

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Lecturer, Egerton University

DEDICATION

This Research Project is dedicated to my Parents Mr. & Mrs. David Kithinji. Thank you for the sacrifices and love you have shown me. You are always there for me to support both financially and emotionally. You are always by my side to provide anything I need. You've taught me to be an independent and God fearing young lady. More so for encouraging me to be strong and do my best since I can get anything I want so long as I have God and I put my focus into it. May God reward you with a long life so that you can live to witness the success of your daughter and enjoy together. You are the best parents I could ever ask for.

I would also like to dedicate this work to my brother Nicholas Mwenda. Thank you for your assistance and for always being there to support me any time I need you. I can always count on you. You are the best brother I could ever ask God for. I would also like to dedicate this work to my little sister Idah Nkirote. I wish it will serve to inspire and challenge you to always work hard and follow your sister's footsteps of originality and creativity. May you grow to be even more successful.

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ABSTRACT

Rights issues give existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price in order to encourage participation in the capital raised over purchasing shares in the market. This study aimed to identify the effects of rights issue on the share performance of listed Kenyan-based companies on the Nairobi Securities Exchange. This study also aimed to compare the share performance of companies which have performed rights issue to the performance of those which have not. The research was to evaluate the effects of rights issue on firms' subsequent trading prior to and after the issue. The target population of this study made up of all companies listed at the NSE as at 31st December 2012. In total there were 62 companies listed as at December 2012. This targeted all Kenyan based companies that are in the NSE 20 share index and those that had undertaken rights issue between 2007 and 2012. A data collection sheet was used to collect secondary data on market indices, daily closing share prices and traded volumes for a period of 20 days before and 20 days after each rights issue announcement. Daily market abnormal and cumulative abnormal returns were computed and a t-test at 95% confidence level done to determine the effect of rights issue announcement on share price and results interpreted. From the findings, it can therefore be concluded that rights issue announcements have no significant effect on investor's reaction since 88.8% of the companies analysed indicated that there was no significant effect. On the objective to examine the effect of rights issue announcement on the share price performance of companies doing rights issue, 100% indicated a positive significance level thus positive stock price change during the period surrounding the announcement of a rights issue. This study is consistent with other studies done in this area that rights issue announcement affect the company's share price performance.

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LIST OF ABBREVIATIONS

CMA	Capital Markets Authority
CAR	Cumulative Abnormal Return
DTB	Diamond Trust Bank
EBIT	Earnings before Interest and Tax
EABL	East African Breweries Limited
EPS	Earnings Per Share
IPO	Initial Public Offer
KCB	Kenya Commercial Bank
KQ	Kenya Airways
MM	Modigliani and Miller
MAR	Market Abnormal Return
MPS	Market Price Per Share
NSE	Nairobi Stock Exchange
NPV	Net Present Value
KPLC	Kenya Power and Lighting Company
EABL	East African Breweries Ltd.
KENGEN	Kenya Electricity Generating Company
BAT	British American Tobacco

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Companies either in growth or expansion need more capital than they are sometimes able to generate internally. They explore options of raising that additional capital and a rights issue is such an option. If the objectives are achieved, they should lead to the improvement of a company's performance and the prices of its listed shares at the stock exchange should go up.

A Rights Issue can be used to introduce new shareholders into the company through the purchase of renounced rights or through an underwriting of the issue where the underwriter undertakes to take up all the untaken Rights. At the end of the day, a Rights Issue gives both the shareholder and other investors an opportunity to participate in raising the capital of a company. The only problem for non-shareholders is that if the Rights Issue is very popular, then there may be no Rights to be bought at the trading.

The most common types of long-term financing in Kenya include long-term debt, common stock, preferred stock and retained earnings. This implies companies can use own equity or borrow funds say through long-term debt (bonds). Companies use either equity or debt financing but equity is preferred more since it forms a permanent source of funding that cannot be easily redeemed. Listed corporations around the world typically raise external equity capital either from existing shareholders or from new investors. Where corporations raise capital from new investors, it’s called an initial public offer (IPO). Here, the public are invited to participate and the formula of allotting shares is clearly stated. Having determined the need to raise funds through equity, firms then seek to be listed at the Nairobi securities exchange if it’s a company in Kenya or they can be listed at other stock markets in other countries. Firms are listed or admitted into a stock market after meeting certain regulatory requirements set by the regulatory authority.

The stock market in Kenya is known as the Nairobi Securities Exchange (NSE). It constitutes a voluntary association of stockbrokers. The NSE was formed in 1954. It has had a remarkable development to become amongst the most vibrant stock markets in Africa

(Mugo, 2010). According to NSE, the market capitalization saw tremendous improvement hitting Ksh. 1.234 Trillion as a result of new shares which have come into the market and the increasing number of shares trading (www.nse.co.ke). Currently, there are 62 securities listed at the NSE. The Security Exchange has continued to play an important role in economic development, especially concerning its role in financial intermediation. Securities traded at NSE are bonds and shares that constitute the markets two broad segments.

CMA on the other hand is a regulator of the Kenyan capital markets and is involved in issuing guidelines on laws governing the NSE, brokers, investment advisors and dealers. It also works together with the NSE to fix prices of shares that have been floating to ensure potential buyers buy them. It also strives to ensure that companies disclose to investors all relevant information before admitting them to the bourse and on a continuous basis after listing. A securities exchange shall within four months after end of a financial year make available to the authority and to the investors, a summary of information on companies listed at the securities exchange (Chebii, 2006).

A rights issue is therefore an offer to buy additional securities in a corporation at a discount. It targets existing shareholders and are allocated based on the number of shares they hold. In most cases, a rights issue is offered by closed-end companies. These are companies that redistribute all their earnings failure to which, they face backlash from shareholders who may sell in mass and lower company value (Gowthorpe, 2005).

1.2 Statement of the Problem

Karanja (2006) did a study on an evaluation of post rights issue Effect on firms' share price and traded volumes. The objective of the research was to evaluate the effects of post rights issue on the firms share price and traded volumes. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced rights issue. He did an analysis 90 days after the rights issue and noted that most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run. Nelson (1965) analyzed 380 rights offerings in the United States, by use of monthly data. From his study, Nelson realized that rights issue announcements have little or no impact on investor reaction, as wealth in the stock exchange neither increased nor declined after a rights issue. Loughran and Ritter (1997), finds out that those American companies that offer rights

issues tend to underperform in the long run, as compared to their counterparts with no rights issues. This assertion is supported by Levis in his 2004 work. Many studies have been carried out on rights issue but the extent of the difference between companies that offer rights issue and those that have not offered rights was still unresolved. This study aimed at investigating the effects of rights issue on company's share performance and it was a case study of companies listed at the Nairobi Securities Exchange. It compared the share performance of firms before and after issuance of rights issues. Information from this study may enable investors to make informed investment strategy decisions in firms that announce their rights issue and those that have not done rights issue. The study therefore established the relationship between rights issue and share performance.

1.3 Objectives of the Study

The general objective of the study was to evaluate the effects of rights issue on share performance of companies listed at the NSE. The study thus was aimed to bring a clear picture of the effects of rights issue on company's share price and trading volume.

Specific objectives of the study:

i. To examine the effect of rights issue announcement on the share price performance of companies doing rights issue.
ii. To evaluate the investors' reaction to rights issue announcement.
iii. To compare the share performance of companies which have performed rights issue to those which have not performed rights issue.

1.4 Hypotheses of the study

$Ho_{1;}$ there is no effects of rights issue announcement on the share performance of companies doing rights issue

$Ho_{2;}$ there is no investor reaction to rights issue announcement

Ho_3; there is no relationship between rights issue and company share performance

1.5 Significance of the Study

The research contributes to the existing knowledge on rights issues through analysis specific to the NSE, over a more recent period. In addition to academic interest, the study can also be of interest amongst private and professional investors, as well as to the boards of public companies who may consider using rights issues to raise equity.

The result of this study also provides an empirical evidence of the effects rights issue on company's share performance.

1.6 Scope of the Study

This study covered firms that have issued rights in the Nairobi Securities Exchange over the past five years that is between 2007 and 2012. It also covered all companies that form part of the NSE 20 Share index. It focused on the market returns of these companies before the issue and after the rights issue are done.

1.7 Limitations and Delimitations of the Study

1.7.1 Limitations of the Study

Firms studied did not list their securities at the same time in the security market. Also there is the limitation of lack of reliability on the data collected. Also the financial statements may sometimes be made with conflicts of interest between the management, the auditors and the shareholders and the public believes this financial statement as the whole truth.

1.7.2 Delimitations of the Study

The time in which the specific firms were listed will be the one applied in the study. The study put reliability on the financial data obtained because it is believed that professional integrity rules on the part of the auditors and thus they always give an objective opinion regarding the financial statements.

1.8 Definition of Operational Terms

Announcement day; this is the day the sale of rights issue is officially opened.

Dividend payout; this is the amount of earnings that the management decides to pay to shareholders. It is normally calculated as: earnings after tax and preference dividends subtract the profits retained. Most of the firms set this as a predetermined ratio to allow the shareholders budget on what they are supposed to take home.

Earnings attributable to ordinary shareholders; this is profits after payment of corporation tax and preference dividends. It is normally used in the calculation of the Earnings per Share (EPS)

Financial performance; this is an indicator of how a firm has generated over a duration of time. It is measuring the results of a firm's policies and operations in monetary terms. The results are reflected using ratios such as Profitability, Gearing, Equity-Related and Liquidity ratios.

Liquidity; this is how much an investor demands and lays his/her attention to a specific stock. Stocks are said to be liquid when the rate at which they change hands is relatively high.

Listing; this is the admission of a locally incorporated company in a local stock exchange.

Market capitalization; this is the value of a company on a specific day of trading. It is computed by multiplying the outstanding equity shares by the ruling market price on a particular day. The market price is normally the one at the close of the trading. Thus as prices fluctuate, so does the market capitalization of a company. Market capitalization is positively correlated with market price of a security. Thus, increase in price means larger market capitalization.

NSE 20 Share Index; this is the oldest Kenyan stock market index established in 1966. It is a price weighted index that measures the average performance of 20 blue chip counters at the NSE. It is updated once every day after the markets have closed.

NSE All Share Index; this is the market index that measures the performance of all the shares listed on the NSE by aggregating and then averaging the market capitalizations of all the shares.

Seasoned Equity Offering (SEO); this is a new equity issue of securities by a company that has previously issued securities to the public before.

Securities; these are the sources of long-term finance to a firm. They are categorized into fixed interest and floating interest securities. Fixed interest securities are those that have a constant rate of return. For instance, debentures, preference shares and long-term debt are fixed interest securities. Floating interest securities are those that do not have a fixed rate of return. They are the ordinary shares, which are entitled to a residual claim on the company's profits. Holders of these securities get the largest share when excess profits are made, and suffer most when losses are made.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Theoretical Review

The study was based on Modern Portfolio theory and the random walk hypothesis. These theories are discussed in this section. The portfolio theory advocates that the investors aim at reducing their risks while increasing their returns and thus they should diversify so as not to put all their eggs in one basket. Through undertaking rights issue, investors stand a chance of increasing their returns since they purchase the shares at a discount. The random walk hypothesis on the other hand is based on the extent to which information once released in the market will influence security prices. The random walk hypothesis consequently leads to Efficient market Hypothesis (E.M.H).

2.1.1 Modern Portfolio Theory

Modern Portfolio Theory (MPT) or portfolio theory was introduced by Harry Markowitz with his paper "Portfolio Selection," which appeared in the 1952 *Journal of Finance*. Thirty-eight years later, he shared a Nobel Prize with Merton Miller and William Sharpe for what has become a broad theory for portfolio selection. Prior to Markowitz's work, investors focused on assessing the risks and rewards of individual securities in constructing their portfolios. Standard investment advice was to identify those securities that offered the best opportunities for gain with the least risk and then construct a portfolio from these. Following this advice, an investor might conclude that railroad stocks all offered good risk-reward characteristics and compile a portfolio entirely from these. Intuitively, this would be foolish. Markowitz formalized this intuition. Detailing mathematics of diversification, he proposed that investors focus on selecting portfolios based on their overall risk-reward characteristics instead of merely compiling portfolios from securities that each individually have attractive risk-reward characteristics. In a nutshell, inventors should select portfolios not individual securities. If we treated single-period returns for various securities as random variables, we can assign them expected values, standard deviations and correlations. Based on these, we can calculate the expected return and volatility of any portfolio constructed with those securities. We may treat volatility and expected return as proxy's for risk and reward. Out of the entire universe of possible portfolios, certain ones will optimally balance

risk and reward. These comprise what Markowitz called an efficient frontier of portfolios. An investor should select a portfolio that lies on the efficient frontier.

James Tobin (1958) expanded on Markowitz's work by adding a risk-free asset to the analysis. This made it possible to leverage or deleverage portfolios on the efficient frontier. This leads to the notions of a super-efficient portfolio and the capital market line. Through leverage, portfolios on the capital market line are able to outperform portfolio on the efficient frontier. . This theory contribute to the field of finance by explaining how rational investors in perfect markets can minimize the risk associated with their investments without reducing their returns through diversification and by building up an efficient portfolio of investments. The study draws its roots from the portfolio theory. This theory advocates that the investors aim at reducing their risks while increasing their returns and thus they should diversify so as not to put all their eggs in one basket. Through undertaking rights issue, investors stand a chance of increasing their returns since they purchase the shares at a discount. The risk and return of any given stock can be duplicated in many ways through various combinations of other stocks.

2.1.2 Random Walk Hypothesis

This is based on the extent to which information once released in the market will influence security prices. Information about the companies is received at random intervals by the investors who read randomly to the information. Therefore, there is continuous trading of a security through buying and selling security prices are therefore determined by a stochastic process where security prices is continuously changing as new information. A riskless in the market therefore, it is difficult to predict the intrinsic value of a security and the price will keep on revolving or around a given intrinsic value which cannot be exactly achieved. The random walk hypothesis leads to Efficient market Hypothesis (E.M.H).

2.1.3 Introduction to Capital Structure

Companies can use own equity or borrow funds through long-term debt (bonds). According to Modigliani and Miller (1958) capital structure irrelevance theory; it does not matter if the firm's capital flows do not change. M and M argue that the total risk for all security holders of a firm is not altered by changes in the firm’s capital structure. Therefore the total value of the firm must be the same, regardless of the firms financing mix. Simply

put the mm position is based on the idea that no matter how you divide up capital of a firm among debt, equity, and other claims, there is a conservation of investment value. That is because the total investment value of a company depends on its profitability and risk, firm value is unchanging with respect to changes in the firm's capital structure. Ross's, (2000) model suggest that the values of firms will rise with leverage. In their second seminar paper Modigliani and miller (1958) show that firm value is an increasing function of leverage due to tax deductibility of interest payments at the corporate level. Debt policy and equity ownership matter and the way in which they matter differ between firms with many and firms with few positive NPV project Ross, 2000.

According to research done by International Journal of business and Management capital restructuring involves equity or debt restructuring that has a direct influence on capital structure. In short, it can be clearly restated that debt restructuring is a means of conducting financial restructuring program that has effect on a company's capital structure Miller et al. Once a company has determined an appropriate capital structure, it still has the some theorists agree that a firm's optimal capital structure is that combination of debt and equity at which agency and bankruptcy costs are minimized. Agency costs are the incremental costs associated with having an agent of debt capital holders make decisions for the principal. Within the context of this consideration of the determination of optimal capital structure management is an agent while stakeholders are principal. Other theorist point out however that while issuing debt typically produces positive outcome for the firms the determination of optimal capital structure for a firm is dynamic process that in addition to agency and bankruptcy cost must account for the effects of corporate and personal income taxes, transaction costs and the degree of control over a firms investments that will be delegated by stockholders to the firm management Brealey and Myers, 1997.

In his study Mulievi J.B (2009) found out that there is no relationship between capital structure and firm value where IPO is used as a proxy for change in capital structure; the study further found out that this failure to establish that there is a relationship between capital structure and firm value results from the fact that each firm increased debt financing along with equity by issue of shares to the public through Ipo (and sometimes retained earnings) as a result the debt ratio did not change along with MPS , EPS, net total earnings.

2.2 Definition of Rights Issue

Companies issue rights as a way of raising capital for expansion or to finance internal operations. Rights issue actually provides a useful mechanism for raising equity for companies. According to Lambrechts and Mostert (1980) Rights issues give the existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price to encourage participation. Gowthorpe (2005) defined rights issue as an offer to buy additional securities in a corporation at a discount. It targets existing shareholders and are allocated based on the number of shares they hold. In most cases, a rights issue is offered by closed-end companies. These are companies that redistribute all their earnings failure to which, they face backlash from shareholders who may sell in mass and lower company value.

Bruce Jurin (2002) analyzed the transaction costs involved in a rights issue and issue of common stock at the stock exchange. He found out that both kinds of offering incur many legal and filing charges. For a firm issuing common stock, the costs include preparing a prospectus and lining up buyers for the issue. Rights issue by contrast, the company is required to contact all the shareholders and set up mechanism for the selling of rights. From this study by Bruce Jurin (2002), it is clear that the transaction costs for the companies with many shareholders tend to make rights offering favored only for companies with high concentration of ownership and this with some exception tend to be smaller.

2.3 Trends in Rights Issue

According to Loughran and Ritter (1997), American companies that offer rights issues tend to underperform in the long run, as compared to their counterparts with no rights issues. This assertion is supported by Levis in his 2004 work. Levis samples United Kingdom companies that conduct rights issues over a period of five years. He comes to the conclusion that, rights issuing companies underperform in that period as opposed to their counterparts. So what exactly leads to this scenario? One of the reasons such companies underperform is the fact that, in a rights issue, investors have to invest more than 44% more for them to have a similar level of wealth as one that alternative investments can provide. According to Ritter (1997), the wealth relative to three years after a rights issue is 0.80 which falls to 0.70 by the fifth year. This essentially means that companies put up rights issues when at their prime or

undergoing major long term restructuring. This drives the market against a largely bullish investor market at the time of a rights issue. A good example of this in the local context is the Kenya Airways rights issues. The company offered a rights issue which received a more than 70% acceptance from investors. However, in the years following it, the company's share price and overall performance have been on a decline. The reason is that, while investors were bullish about the share, the company was floating extra shares as a way of raising money for long term expansion. The impact of such expansion can take upwards of fifteen years to materialize, and give a return to the amount investors put up in the rights issue.

Between 1946 and 1957, Nelson (1965) analyzed 380 rights offerings in the United States, by use of monthly data. From his study, Nelson realized that rights issue announcements have little or no impact on investor reaction, as wealth in the stock exchange neither increased nor declined after a rights issue. His study was followed by that of another American scholar, Smith in the years 1971 to 1975. Smith (1997) analyzed the market and concluded that, there were no supernormal returns on losses on investors after a rights issue. Essentially it means that, investors are indifferent to company announcements of rights issues.

In Kenya, companies at the NSE that have issued rights have been on the increase in the recent past. In 2004 and 2005, Uchumi and CFC stanbic holdings raised a combined sh. 2.01 billion and in 2004 KCB Group rights issue attracted sh. 2.75 billion. In 2006, DTB issued rights which attracted sh. 2.3 billion. In 2007, Olympia Capital, DTB and NIC bank issued rights which attracted a combined sh. 5.04 billion and in 2008 KCB and DTB issued rights which attracted a combined sh. 11.02 billion. There was no single rights issue in 2009 but there was a shoot-out in 2010 where four companies;- KCB Group, TPS East Africa, Standard Chartered and Kenya power floated rights that attracted applications for sh. 26.01 billion, making it the highest rights issue year ever. In 2011, there were no rights issue done but this was overtaken by 2012 whereby five NSE Listed firms turned to their shareholders for cash. They include;- Kenya Airways, DTB, NIC Bank, CFC stanbic Holdings and Standard Chartered. This was the best rights issue year and the cash calls attracted applications for shares worth sh. 37.6 from the investors. This was 18.7% more than what the firms were looking for (www.nse.co.ke).

2.4 Rights Issue Announcement

Smith (1997), also analyzed the effect of rights issue announcement. He first started introducing that; a public company seeking capital must first decide what type of claim to sell. In making that decision it was important to understand the market reactions to the announcement. In his analysis Clifford came up with the following arguments.

Announcements of new equity issues depress stock prices. The expected fall of earning per share (EPS) causes the stock prices to fall. This view thus implies that even if short-term EPS is expected to fall as a result of new equity offering, the issuing of company stock price should not fall as long as the market expects management to earn adequate rate of return on the new funds, there still remains strong temptation to link the negative stock price effects of new equity announcements to the expected earnings reduction. But this is not really related to the equity offering. We must look to the other events to access whether there are other important factors at work. In short there is no theoretical explanation nor is there supporting evidence that suggested that the reduction in expected EPS followed by announcement of stock offering should systematically cause the market to lower companies' stock prices.

Smith *et al* (1997) further argued that the price reduction associated with the announcement of new equity is the result of an increase in the supply of the company's equity. This price pressure argument is based on the premise that the demand schedule on the share of a given company is downward sloping and that the new shares can thus be sold only by offering investors a discount from the market price. Modern portfolio theory, however attaches little credibility to the price pressure argument. The theory says that investors pricing securities are concerned primarily with risk and expected return. The risk and return characteristics of any given stock can be duplicated in many ways through various combinations of other stocks; there many close substitutes for that stock.

Smith *et al* (1997) claims that new security sales are optimal responses by management to changes for the worse in a company's prospects. Alternatively, a company's current market valuation may seem to management to reflect excessive confidence about the future, and it may attempt to exploit such a difference in outlook by "timing" its equity offerings. In such

circumstances even if security sale increases the value of the firm by allowing it to fund profitable projects it could lead potential investors to suspect that management has a dimmer view of the company's future that reflected in its current value. Smith *et al* (1997) found that consequently, an announcement of a new security issue must imply one of the following to investors;- an expected increase in new investment expenditure, a reduction in some liability (such as debt retirement or share repurchased) and hence a change in capital structure, an increase in future dividends or a reduction in expected net operating cash flow. If new security sales were generally used only in anticipation of profitable new investment, then positive stock price reactions would be experienced to announcements of new offerings. But if an anticipated security issues come to be associated with reductions in future cash flows from operations, then investors would systematically interpret announcement of the rights offering as bad news.

Owen and Suchard (2008) further argued that, stock prices do not react to public announcements of rights issues and continue to increase or decrease until ten days after the issue. This leads to the observation that statistically, there is no correlation between shareholder wealth (based on their reaction) and a rights issue announcement.

Myron Schole's (1972), examined the effects on share prices of large blocks of shares sold. According to the price pressure hypothesis, the larger block of shares sold, the larger the price decline would be to induce investors to purchase the shares. Myron Schole's *et al* (1972) found that while stock prices do decline upon the distribution of a large block of shares, the price decline appears to be unrelated to the size of the distribution. The finding suggests that the price discount necessary to distribute the block is better interpreted as a result of the adverse information communicated by a large block sale than a result of selling pressure. This interpretation was reinforced by the additional finding that the largest price declines were recorded when the largest secondary sale was made by corporate officers in the company itself – that is, by insiders with privileged information about the company's future. Information disparity between management and potential investors is another factor that can affect market reaction.

2.5 Market Timing and Rights Issue

The timing of the issue investigates whether the sale of the equity exploits the stock trading and if it can account for post offer stock performance of the firm. Do managers decide to raise equity capital when the market appears to value a firm highly as perceived by the insiders? Burch *et al* (2003), suggests that the investors seem to think so as indicated by significant stock price decline that tends to accompany announcements of rights issue. What are we to make, then, at the finding of significantly poorer stock price performance in the months after offer? Burch *et al* (2003), explained that some researchers claim that underperformance may result from the selling of overpriced equity and the failure of market participants to the negative information conveyed in the announcement. Burch *et al* (2003), further claim that much of the apparent underperformance may be the result of methodological problems such as improper controlling of the risk. Whether or not post offer performance is abnormal, and whether the results is tied to offer timing has important implications for market efficiency and managers considering the rights offers. Myer and Majluf (1984), argue that in firm commitment rights offering managers would be expected to be more concerned with the welfare of insiders than with new investors in the firm's equity. Rights offering, which involve a prorate distribution of rights is aimed at current shareholders although holders are usually allowed to sell their rights if they wish. Following this logic in Myers and Majluf (1984), this would suggest that incentive to time offers will be much weaker if not absent altogether in the in the case of rights offering.

2.6 Empirical Review

Karanja (2006) did a study on an evaluation of post rights issue Effect on firms' share price and traded volumes. The objective of the research was to evaluate the effects of post rights issue on the firms share price and traded volumes. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced rights issue. He did an analysis 90 days after the rights issue and noted that most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run. Karanja recommended that firms that announce rights issue must consider information asymmetry as this highly determines the firms share prices after successful rights issue. Karanja (2006) further uses the work of Christie William et al who also examined whether post offer price share performance is related to the decision to issue rights instead of a firm commitment

offering if market offering is important factor affecting post issue stock returns. Christie William et al wanted to find significant difference in stock performance after a firm commitment offering would be consistent with the notion that firm's commitments are timed. They found out that significantly more negative abnormal return during the year following the offer for the firm's commitment than for rights offer firms. They show that differences in these abnormal returns are robust to controlling for the offer size, the firm's leverage, and the market to book ratio and other firm's attributes. Hence the evidence suggests that firms selling shares to current owners via rights offer did not appear to be timing their issue to exploit over-valued equity while firms selling to new owners were. These findings support the notion that the pattern of underperformance is tied to market timing.

Kakiya (2007) conducted a study on the effects of Announcements on stock returns. The researcher computed a 5 day moving average to observe the trend of stock returns following earnings announcement. Daily market adjusted abnormal and cumulative abnormal returns were computed and a further t-test done to determine the effect of earnings announcement on stock returns and results interpreted. The findings from the study were that trends in stock returns are dependent on event announcement. Traded volumes are not significantly affected by announcement. Earnings announcement had a significant effect on stock returns when CAR was evaluated indicating market inefficiency but AR was not significant for individual companies. From the findings of the study, it was concluded that the Nairobi Stock exchange is not semi-strong form efficient. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on effect of rights issue on company's share performance and only companies that have done rights and those that form part of the NSE 20 share index formed the target population.

Olesaaya E.(2010) did a research on the effects of rights issue on stock returns and he investigated companies listed at the NSE. Oleesaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolioto measure and analyse the abnormal returns. In this study, Olesaaya assumed that the abnormal returns reflect the stock Markets reaction to the announcement of rights issue. The findings of this study done by Olesaaya shows negative abnormal returns prior to announcement of rights issue, positive abnormal

returns during the announcement and negative results thereafter.

Munene K. (2006) studied the relationship between profitability and sources of financing of quoted companies at the NSE. The study population of the 48 companies quoted at the NSE between 1999 and 2004 and they concluded that there is a week positive relationship between capital structure and profitability of firms quoted at the NSE between 1999 – 2004 and therefore other factor contribute to firm capital structure.

Fitims D & Media D (2008**)** carried out a research in Macedonia to analyze factors influencing companies' leverage of Macedonian listed and unlisted companies. They selected two samples. The first one was from Macedonian non-financial companies registered on Macedonian Stock Exchange covering the period of 2005-2007 and comprised 32 listed companies. The second one was from Macedonian small and medium businesses covering the period of 2005-2007 and comprised 30 companies. The data used for the empirical analysis were derived from companies' annual reports. They analyzed whether the decision of the companies concerning the leverage was in conformity with the theoretical expectations proclaimed in previous studies and whether there was any disparity between listed and unlisted companies. Profitability, tangibility, size, growth rate and non-debt tax shield were used as independent variables, while leverage was the dependent variable. Their findings were consistent with implications first of all of, Pecking Order Theory and then of Static- Trade off Theory. Agency cost theory was not confirmed in their results, except at size variable for listed companies. On average, they noted, Macedonian unlisted companies used more debts than listed companies. Tangibility, size, non-debt tax shield, and growth were confirmed not having effect in capital structures decisions for Macedonian listed companies.

A study by DeAngelo et al (1980) shown that in the specific instances of rights issue, the correlation to market –timing is shown to exist. In addition, firm life cycle is found to have a high correlation to the probability in the first year of listing compared to a 2.5% probability for firms listed for more than a year. The life cycle stage was found to be a more significant predictor than market – timing opportunities 71%more likely to conduct a seasoned – equity offering than firms listed for 20 years with excellent market opportunities.

Mc Laughline *et al* (1996) investigated on the operating performance of seasoned equity issuers and post issue performance. They found out that operating profit declines subsequent to Seasoned Equity Offering (SEO) Significant sample of firms experienced a decline in cash flow performance. Jensen's (1976), free cash flow theory which was inconsistent with Mc Laughline's study, observes that decline in firm's performance is negatively related to free cash flow in the year before the issue. Jensen *et al* (1976) argues that there is a serious divergence of interests between managers and shareholders. Managers prefer to retain excess cash flow in the firms and might the cash for value reducing activities such as investments in negative Net Present Value projects. This problem is especially acute for firms with few positive Net Present Value investment opportunities. Jensen *et al* (1976) indicates that a major problem for shareholders is to manage to pay out cash rather than use it for value reducing activities. Thus, Jensen's free cash flow theory predicts that the announcement of seasoned equity offers has a negative effect on stocks prices especially if it increases resources available for poor investment by managers. This stands as long as the number of positive NPV opportunities is limited.

Healy and Palepu (2001) examined the changes in earnings, analysts earnings focus and changes in risk for a sample of 93 seasoned equity issuing firms listed on the New York Stock Exchange and the American Stock Exchange. They find no change in analyst earnings forecasts but do find an increase in risk following the offering. In contrast, John ,(1986)find a decline in firm earnings subsequent to security issues. Patel *et al* (1993), examined the long term cash flow performance of publicly traded firms that issue straight debt, convertible debt, or common stock. Focusing on signaling explanation for the decline in performance, they find that although issuer performance declines, issuer still performs better than other firms in their industries and that firms with larger offerings have greater declines in performance. Loughran and Ritter (1997), and Mc Laughline *et al* (1996) examine the changes in operating performance for large sample of seasoned equity issuers. Both studies find that operating performance of issuing firms declines subsequent to the issue. Loughran and Ritter (1997), and Spiess and Affleck - Graves (1995) find that seasoned equity offering firms have poor post issue stock performance. Spiess and Affleck Graves (1995) find that debt issuers also have poor post issue stock price performance.

Miller and Rock (2012) found that insiders are better informed than outsiders about future cash flows of the firms. All firms have fixed investment opportunities with diminishing marginal returns. Since the sources of funds must be equal to the uses of funds, equity offerings can signal that the firm has realized unexpected fall in earnings. Thus, the Miller and Rock model also associates announcement of equity offerings with negative stock prices reactions and negative change in performance.

There are empirical papers that have examined the announcement effect of seasoned equity offering and related it to firm specific variables. Asquith *et al* (1986) document that announcement of equity offerings reduce price significantly. However, cross sectional analysis relating to the offerings reduce price significantly. However, cross sectional analysis relating to the announcement effects to the firm's specific variables has had mixed results. Although Asquith and Mullins find that the size of the offering is statistically significant and the negative announcement day effect, Affleck (1995) do not find a significant relation between the announcement period stock price reaction and institutional ownership. This relation is especially important for low growth firms since these are firms likely to waste the investment proceeds in the value reducing investment activities. Brous and Kini *et al* (1993) interpret their findings as support for monitoring role played by institutions.

D'Mellow *et al* (2003) researched on the sequence of seasonal equity offering (SEO). They investigated the relation between announcement period returns and the sequence of seasoned equity offerings for industrial, financial, and utility firms making multiple offerings. For industrial firms, there was monotonically positive relation between the returns and the sequence of the issues. Further, the stock price reactions to the fourth and subsequent issues by industrial firms were insignificant. For firms that conduct at least two seasoned equity offerings, there was no difference in returns between industrial firms and utility or financial institutions. The lower negative returns for later announcements by industrial firms could be explained by reduced adverse selection costs.

Asquith and Mullins 1986, report that investors react negatively to announcements of seasoned equity offerings. These studies average the announcement period returns across all primary SEOs and finds that the decline in stock prices for industrial firms is approximately

3%. The implicit assumption behind the methodology of averaging returns is that all equity issue announcements are independent observations and for a firm that conducts multiple issues, investors do not react any differently to the announcement of the first few offerings than to those announced later in the sequence. However, for a firm that issues equity frequently, the market reaction to later equity announcements could be different from the reaction to earlier offerings because a firm's characteristic change each time it issues equity. A firm that has made several SEOs will generally be larger and more mature and hence less risky than when it initially issued equity. Similarly, a firm that has sold equity often may be subject to less information asymmetry because it is large and thus more likely to be followed by analysts and the popular press or because investors and financial intermediaries have realized its performance each time it raised funds. If investor's reaction to equity issue announcement are affected by the level of information asymmetry or by firms specific characteristics as researchers have documented, then announcement period returns for later offerings of a firm will be less negative than for earlier issues.

Previous studies suggest alternative explanations for the positive relation between announcement returns and the equity sequence. Loughran and Ritter (1997) and Spiess and Affleck Graves(1995) find that large and mature firms are more likely to conduct multiple equity issues. Thus, the positive relation between firm size or age and announcement period returns. Similarly, Affleck *et al* (1995) find that the market reaction to corporate announcements has become less pronounced over time because equity issues conducted later in the sequence are more likely to be announced in the second half of the sample period, the pattern in announcement period returns might actually be a time period rather than a sequence effect.

D'Mello *et al* (2003) explained the possible pattern of announcement period returns were as a result of information asymmetry, market reactions and sequence of equity issues. Myers and majlut (1984) argue that when there is asymmetric information about firm value, equity offering convey negative information about assets in place. Paul Healy *et al* (2001) provide evidence consistent with their asymmetric information hypothesis. They document a negative relation between measures of information asymmetry and equity announcement period returns. Therefore a possible explanation for the less negative returns for successive announcements is declining asymmetric information levels across the sequence of equity

issues. There are several reasons a firm that issues equity often might be subject to less information asymmetry than when initially issues equity. Firms generally invest the proceeds of an equity offering in capital assets meaning firms that have issued equity multiple times are larger than when they first sold equity. Research has documented that analysts, institutional investors and the popular press often follows large and mature firms. A major role of these investors and intermediaries is the generation and dissemination of firm – specific information. Hence, firms that have conducted multiple equity offering will have lower asymmetric information than when they initially offered equity. Similarly, Myers *et al* (1984) argues that because a firm's activities are monitored by the capital markets each time it goes to the security market a firm that has conducted several SEOs in the past will experience less information asymmetry than when it initially issued equity.

Similar to Loughran *et al* (1997), we find the coefficient of asymmetric to be significantly negative relation between announcement returns and information asymmetry levels to utilities, a result that has not been documented to date. This result suggests that firms in the utilities sector that are already characterized by low levels of asymmetric information can further reduce adverse selection costs of equity offering by revealing more information for financial institutions, the co-efficient is significant implying that the market reaction to seasonal equity offer is not affected by the level of asymmetric information. Similarly, Spiegel and Spulber (1994) argue that the capital structure of utilities affects the rates set by regulators. Regulators raise utility rates when debt levels are high because such actions reduce the possibility of bankruptcy. When utilities issue equity, they reduce the fraction of debt in their capital structure and hence the potential of bankruptcy. Therefore equity issues by these firms increase the regulators incentives to reduce rates, which adversely affect shareholders wealth to the extent that leverage declines every time utility firm issues equity. Shareholders will react negatively to an SEO announcement thus offsetting any benefits or reduced information asymmetry.

Tsangarakis et al (1996), analyzed the shareholders wealth effect of equity issues in emerging markets with evidence from rights offering in Greece. His study investigated the common stock price reaction to announcement of common offering in Greece during the period 1981-1990. Equity offering in Greece take the form of "rights issue" rather than the "general cash offers" which are the subject of most empirical studies analyzing valuation

effects of equity offerings in the U.S. An important difference between these two methods of raising equity capital is the possibility of wealth transfers from new to old shareholders arising from the information asymmetry between management and outside investors. In contrast to general cash offers, in rights issue the new shareholders are acquired by existing shareholders. Thus, to the extent that all current shareholders exercise their pre-emptive rights, the wealth transfer effect described by Myers and Majiuf, (1984) becomes irrelevant. Consequently, any stock price effects associated with announcement of rights issue cannot be attributed to this information effect. The ability to isolate this effect makes rights issue an ideal sample for further examination and understanding of stock price reaction to announcement of equity.

Company managers know about their own firm than the stock market. They possess private information on either value of assets in place or investment opportunities. This private information is conveyed to the capital market either intentionally or unintentionally, in a variety of ways including that of issuing new securities. Myers and Majlus *et al* (1984) were the first to show that managers with superior private information have incentives to issue equity when the prevailing market price of shares is larger than their intrinsic value. Knowing that managers will avoid issuing undervalued shares; investors interpret an equity issue as a signal of overvaluation. This reasoning is formally known as the asymmetry hypothesis.

The simplest version of this hypothesis predicts an immediate drop in share price when companies announce new equity issues. The greater the overvaluation (information asymmetry), the higher would be the stock price decline. A related model developed by Ambarsh, John and Williams (1987), argues that the announcement effect of equity issues in fact reflect the source of asymmetric information: value of existing assets or future investment opportunities. According to the model, the negative market reaction to stock issue will be aggravated to low growth firms (these have abundant assets in place but limited opportunities to invest) whereas the effect will be mitigated for high growth firms (those that have assets but abundant opportunities to invest).

Studies of share market reaction to announcements of rights issues have yielded mixed results. Studies in the US like Scholes (1972), Smith (1997) White and Lusztig (2000) and

Eckbo and Masulis(1992) typically find negative or insignificant market reaction to rights issues.

2.7 Conceptual Framework

Previous studies indicate that rights issue has relationship with company's share performance. However, Company's share performance and trading volume is also influenced by change in interest rates, Inflation rates, government policy and currency fluctuation. Whenever interest rates are low, the borrowing power of investors is increased and this consequently enables them to borrow and purchase the rights issue thereby leading to and improved share performance and high trading volume. When inflation rates are low, the investors can afford to buy additional shares and this consequently leads to improved share performance and high trading volume. The government can time by time impose certain policies. If the policy imposed favours the investors and increases their purchasing power, then they are likely to purchase the rights issue and this will consequently lead to an improved share performance and a high trading volume. The converse of all this is true. For example if the currency exchange rate move upwards, the investor's borrowing power will be low and thus by not taking up the rights, this will consequently lead to a weak share performance and low trading volume. If the currency exchange rate move downwards, the investors can afford the rights and this consequently leads to and improved performance in shares and a high trading volume.

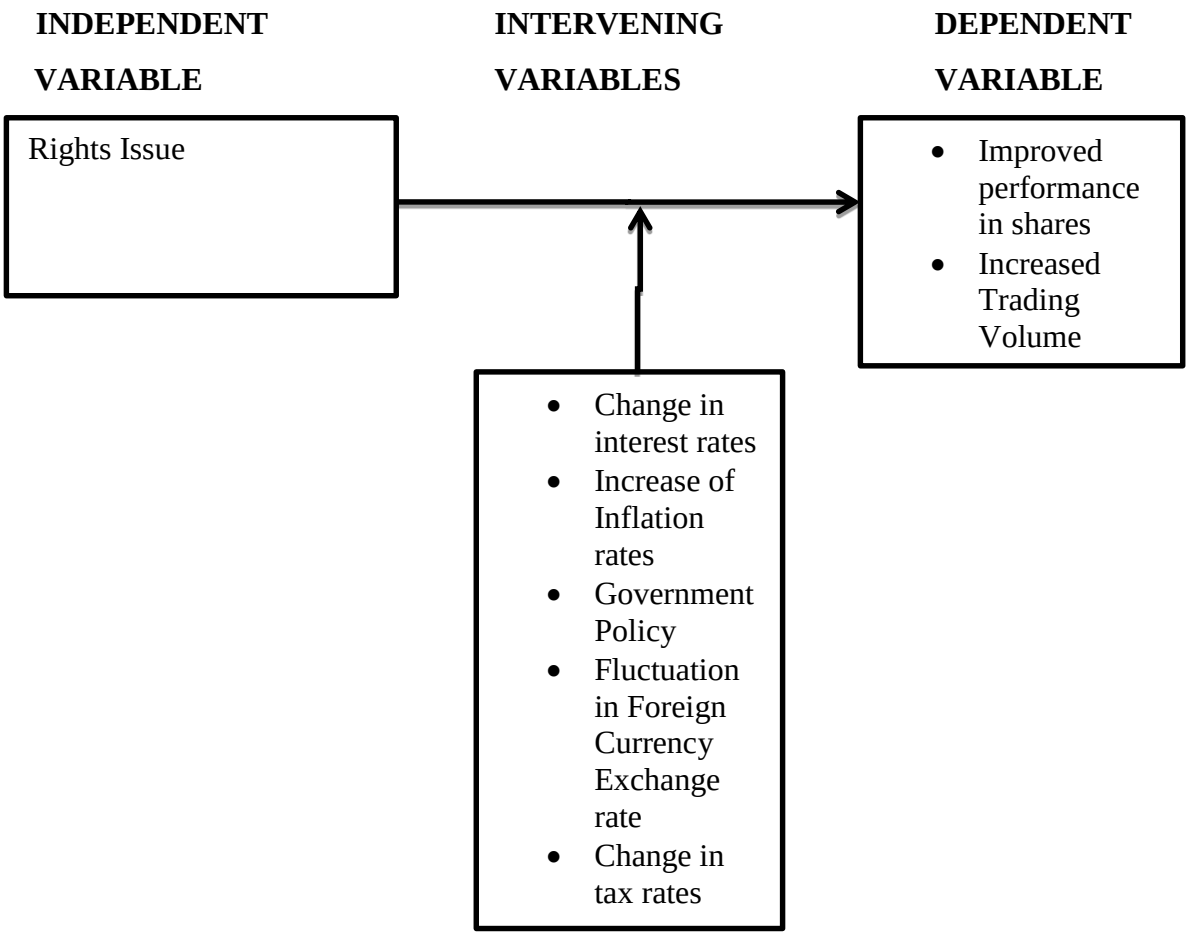


Figure 1: Conceptual Framework

Source: Reviewed Literature (2013)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research adopted a descriptive study to evaluate the effect of rights issue on firms subsequent trading prior to and after the issue. This is because the study was about a fairly knowledgeable aspect of the phenomenon. Descriptive research was aimed at generating knowledge that may be useful to describe or develop a profile of the study.

3.2 Target Population

The population of this study made up of all companies listed at the NSE as at 31st December 2012. The companies are classified into five categories known as sectors. The sectors are;- Agricultural sector, Commercial and Services Sector, Finance and Investment sector, Industrial and Allied Sector and the Alternative Investment Market segment as seen in Appendix II. In total there were 62 companies listed as at December 2012. This targeted all Kenyan based companies that are in the NSE 20 share index and those that had undertaken rights issue between 2007 and 2012.

3.3 Sample and Sample Size

The sampling method that was used is purposive sampling in order to get the targeted companies. From the population of 62, the researcher selected companies that form the NSE 20 share index and companies that had done a rights issue between 2007 and 2012 were selected. This yielded 9 companies. The location of the study was Kenya and specifically the Nairobi Securities Exchange (NSE) where by the secondary data was collected from.

3.4 Data Collection

The study mainly used secondary data. Data was collected from the Nairobi Securities Exchange. Secondary data was obtained from stock prices, market index, and announcement dates. A data collection sheet was used to capture information on companies that announced their rights during the period, date of announcement, market index, daily closing share prices and traded volumes over an event window of 20 days prior and 20 days after the rights issue announcement with the day of announcement being day zero. This is because the study aimed at examining the effect of rights issue announcement on stock return and

extending the period of data collection could lead to changes in stock returns due to other market factors.

3.5 Data Analysis

Data analysis tool in Microsoft Excel Spreadsheet computer program was utilized.
T-test was conducted on the daily share prices and trading volumes over the event window to determine whether there is a significant effect of share price and trading volume on rights issue announcement.
On the performance of companies which have performed rights issue to those which have not performed rights issue, daily market abnormal return (AR) and daily cumulative abnormal return (CAR) was computed. AR was also computed.

$AR_{it} = R_{it} - E(R)$

Where;

AR_{it} is abnormal return for security *i* over time *t*

R_{it} is the return at time *t* on security *i*

R_{mt} is the time *t* return on NSE 20 Share Index

E(R) is the expected return for security i at time t

This study adopted the market model, which provides a linear specification of the return of the given stock to the return of the market portfolio. This model is preferable because it reduces the variance of abnormal returns by removing the portion of the stock return that is related to variation in the market return, Adelegan, (2009). The market model is specified as:

$$R_{it}=a_i + b_iR_{mt} + e_{it} \quad (1)$$

Where: R_{it} and R_{mt} are the returns on stock i and the market respectively at time period

t. e_{it} is the error term.

$E(R)=\alpha+\beta * R_{mrt}$

Where;

α and β are parameters estimated with the market model.

R_{it} and R_{mrt} were calculated as follows;-

$R=Ln (P_1/P_0)$ Which is the same as $(P_0-P_1)/P_0$

An average market abnormal return was estimated as follows:-

$$(MAR_t) = \sum^{n} \frac{AR_{it}}{N}$$

Where, N is the number of firms being examined, each firm was analyzed separately.

Market abnormal return was estimated to determine whether on the average, the rights issue announcement is associated with change in security returns.

Cumulative abnormal returns (CAR), which measures investors' total return over a period starting from 20 days prior to and 20 days after rights issue announcement, was measured as below:-

$$CAR_t = \sum_{t=1}^{t=j} AR_t$$

Where j denotes day -20 through to a day +20

AR_t = Is the abnormal return for each security over time *t.*

t-test was conducted at 95% confidence level to find if there was significant AR, CAR, MAR and CAR after rights issue announcement.

Specific objective 1, 2 and 3 were addressed by test on share price, share trading volume and share index. The t-test at 95% confidence level was used since the population in the study was less than 30 thus it was very suitable for this study. The event date was defined as t=0, while the estimation period was 40 days starting from 20 days before rights issue announcement to 20 days after rights issue announcement.

According to Mason 1999, t test is computed as follows:

$$(\times-\mu) \div (s/\sqrt{ń})$$

where: ×=population mean

μ=this is called t critical; it is normally got on the table at a certain degree of confidence

s=sample mean

ń= sample size

3.6 Data Presentation

After analysing data, it was summarized in form of Tables and in certain circumstances presented using Charts. This was generated using Microsoft Excel.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Effects of rights issue before and after the offer on the companies doing rights issue

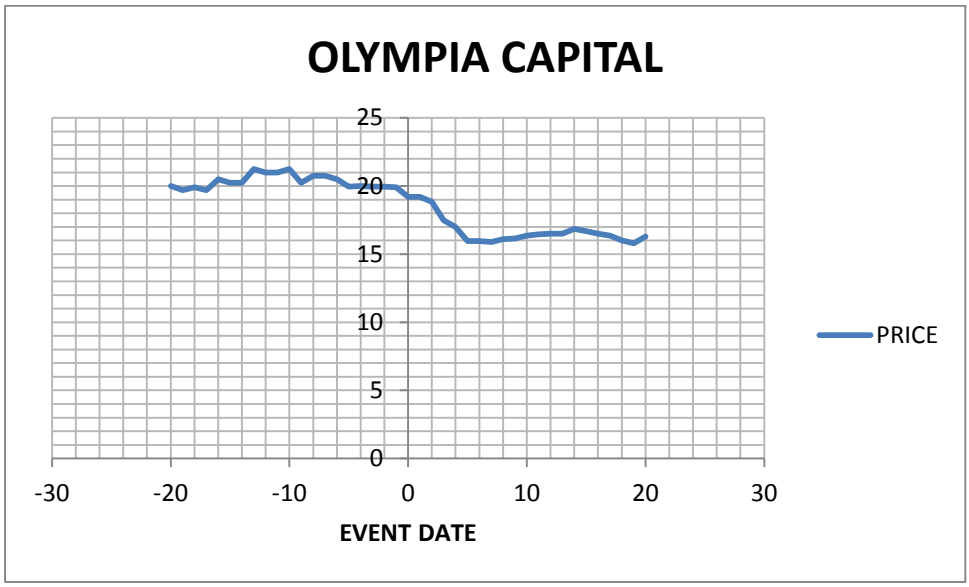
The null hypothesis stated that there is no significant effect of rights issue announcement on share price performance of companies doing rights issue; indicating that the population mean before and after rights issue announcement should be equal; i.e Ho: $U_1=U_2$. The hypothesized mean difference is equal to zero and the alternative hypothesize is H_1: $U_1 \neq U_2$.

Table 4.1.1. T-test on Share Prices

			one sample test		95% confidence level		
	volume			test value = 0			
Company	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
KCB	11.913	19	2.093	-1.14	21.08	18.80	0.0000
NIC	-12.742	19	2.093	1.14	25.57	27.85	0.0009
KQ	14.349	19	2.093	-1.60	17.16	13.96	0.0001
DTB	-2.318	19	2.093	0.75	90.45	91.95	0.0316
STANDARD BANK	-3.2804	19	2.093	3.28	203.65	210.20	0.0039
CFC BANK	-4.5574	19	2.093	1.41	43.24	46.06	0.0002
KPLC	10.807	19	2.093	-84.11	190.91	22.70	0.0000
TPS SERENA	15.546	19	2.093	-2.465	62.53	57.60	0.0000
OLYMPIA CAPITAL	13.872	19	2.093	-1.85	20.34	16.65	0.0000

Source: Research Data (2013)

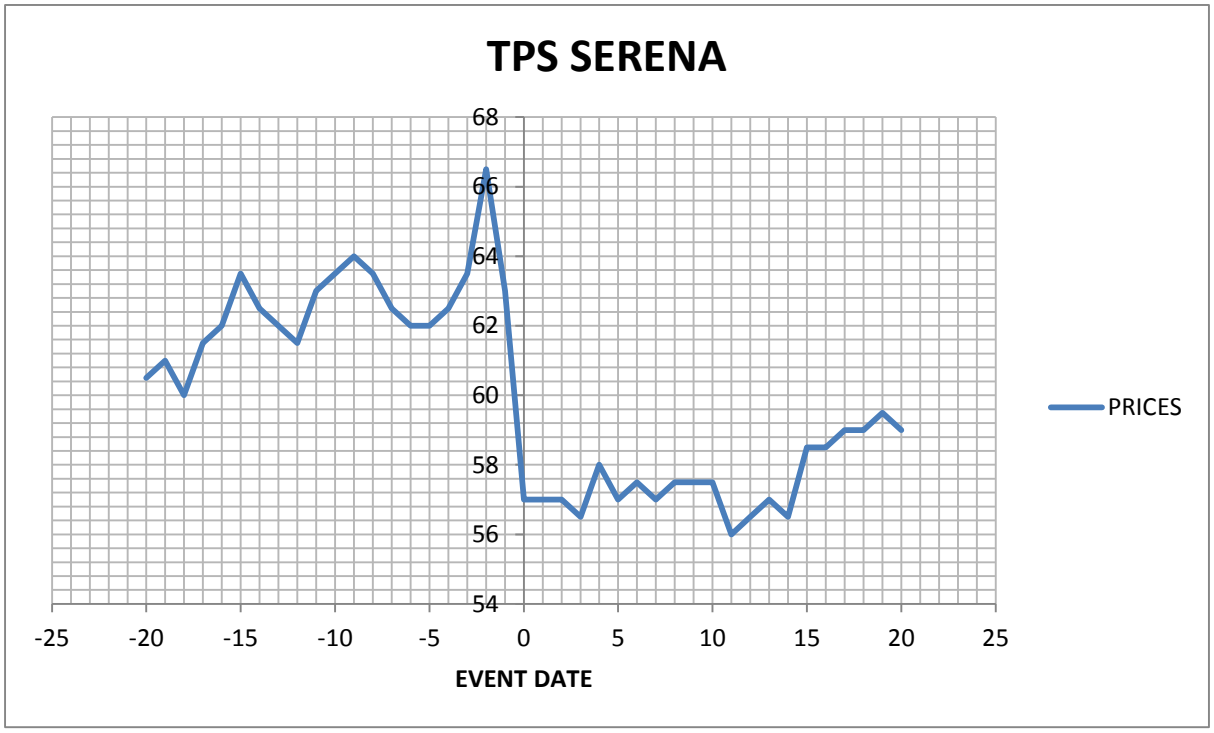
Figure 4.11 Effects of Rights Issue in Olympia Capital Share Prices



Source: Research Data (2013)

For Olympia Capital, the trend of share prices drops from 19.2 to 18.85 on announcement as seen in figure 4.11. The share prices of Olympia Capital shares were collected and t-test conducted. It was found that the computed t-value was 13.872 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

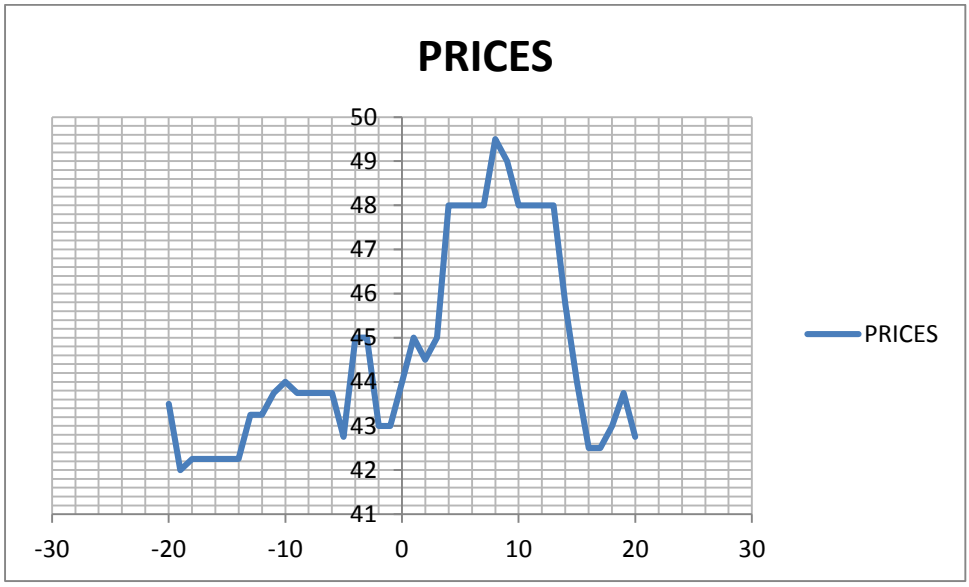
Figure 4.12 Effects of Rights Issue in TPS Serena Share Prices



Source: Research Data (2013)

For TPS Serena, the trend of share prices drops from 63 to 57 on announcement as seen in figure 4.12. The share prices of TPS Serena shares were collected and t-test conducted. It was found that the computed t-value was -15.546 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

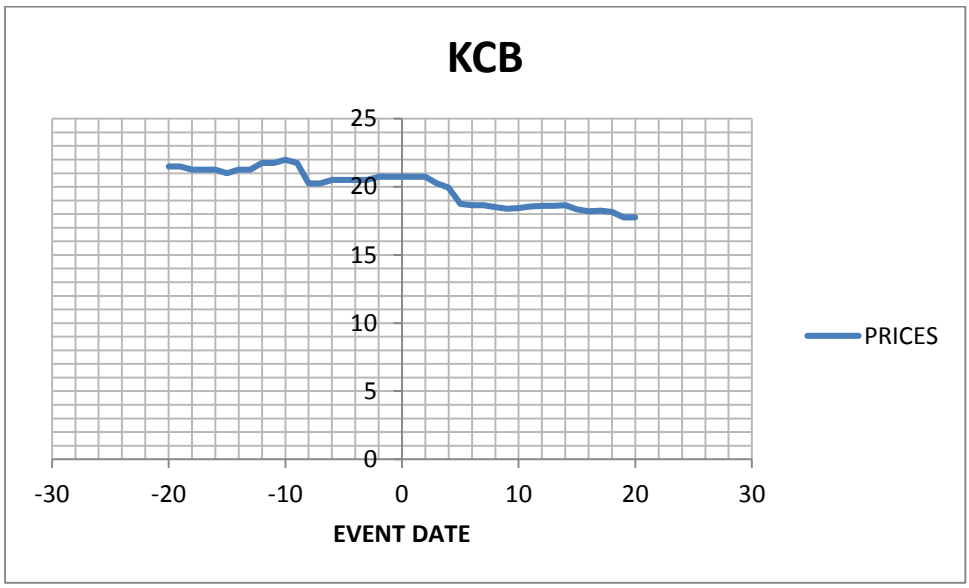
Figure 4.13 Effects of Rights Issue in CFC Share Prices



Source: Research Data (2013)

For CFC Bank, the trend of share prices rises slightly from 44 to 45 on announcement then on day 2 drops to44.5 and then rises up to 48 on day 13 and on day 16 rises again as seen in figure 4.13. The share prices of CFC shares were collected and t-test conducted. It was found that the computed t-value was -4.5574 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$,was rejected. The computed P-value of 0.0002 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

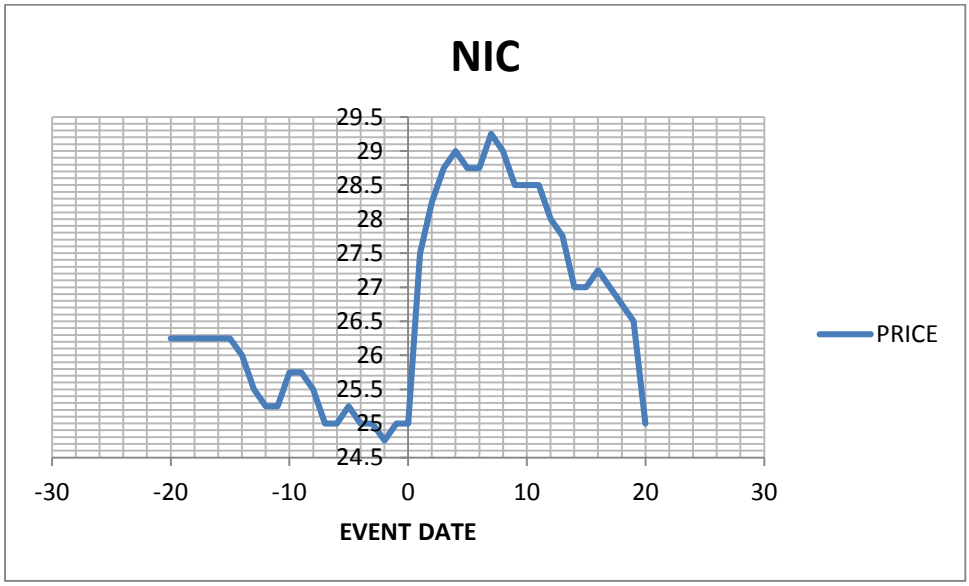
Figure 4.14 Effects of Rights Issue in KCB Share Prices



Source: Research Data (2013)

For KCB Bank, the trend of share prices remains at 20.75 till day 3 then on day 4 drops to 19.95 and 18.75 on day 5 as seen in figure 4.14. The share prices KCB shares were collected and t-test conducted. It was found that the computed t-value was -11.913 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, is rejected. The computed P-value of 0.0000 is lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

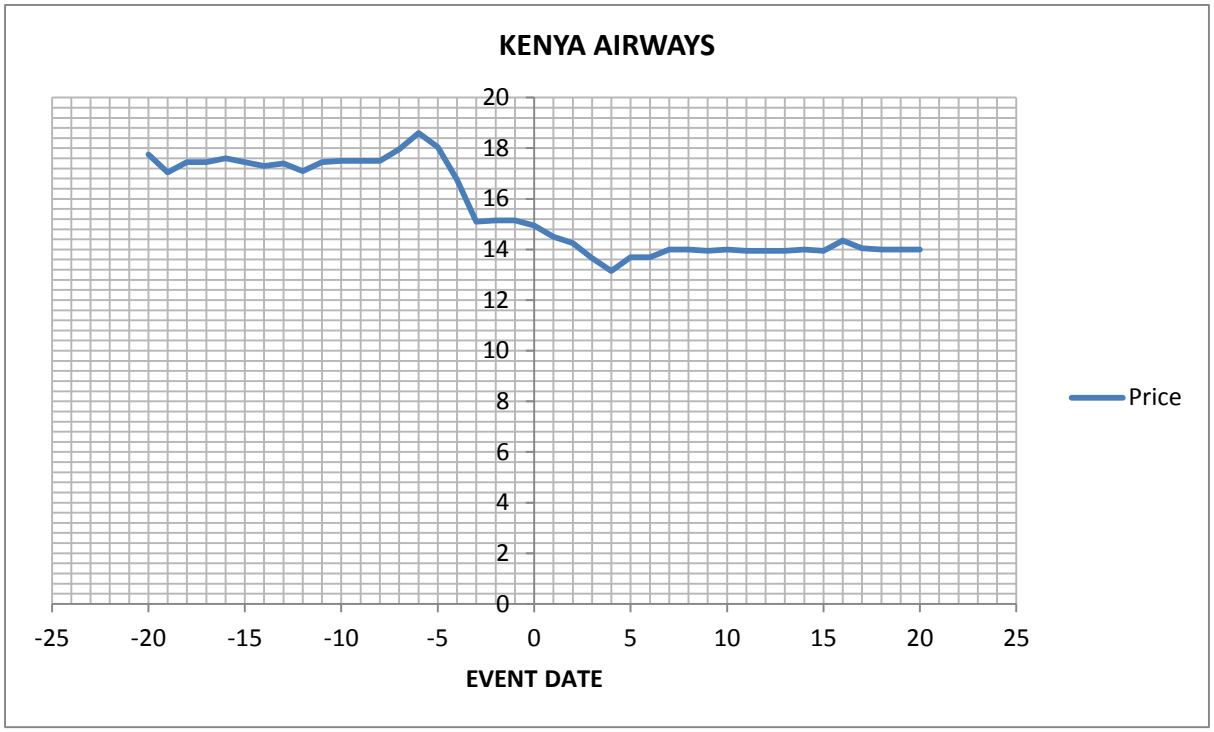
Figure 4.15 Effects of Rights Issue in NIC Bank Share Prices



Source: Research Data (2013)

For NIC Bank, the trend of share prices rises from 27 to 27.5 on day 1 and then continues rising till day 17 and then drops to 27 on day 14 and to 25 on day 20 as seen in figure 4.15. The share prices NIC shares were collected and t-test conducted. It was found that the computed t-value was -12.742 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, is rejected. The computed P-value of 0.0009 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

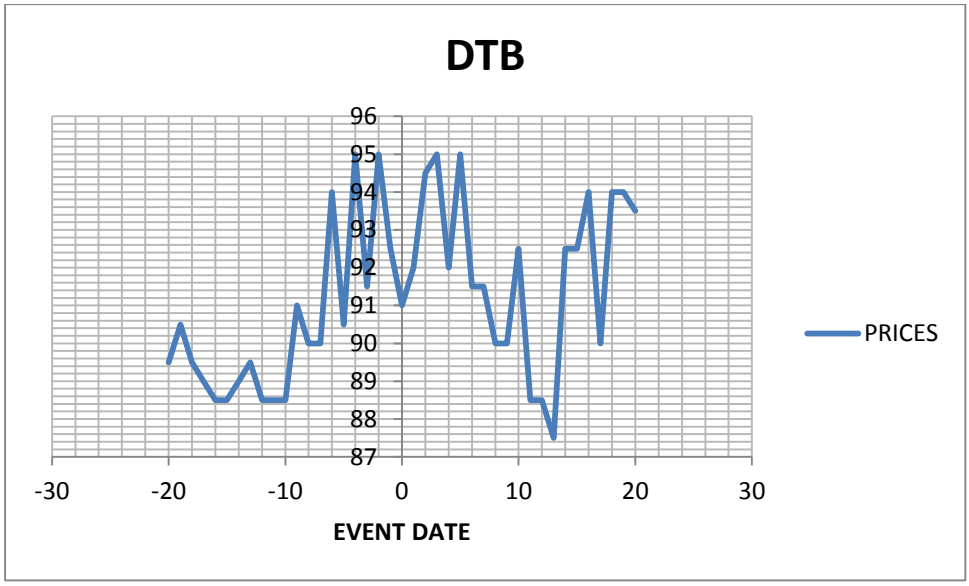
Figure 4.16 Effects of Rights Issue in KQ Share Prices



Source: Research Data (2013)

For KQ, the trend of share prices drops from 15.15 to 14.95 on announcement day then continues to drp up to 13.7 on day 5 and 6 till day 13 and then rises to 14.05 on day 14 and drops up to 14 on day 20 as seen in figure 4.16. The share prices KQ shares were collected and t-test conducted. It was found that the computed t-value was 14.349 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, was rejected. The computed P-value of 0.0001 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

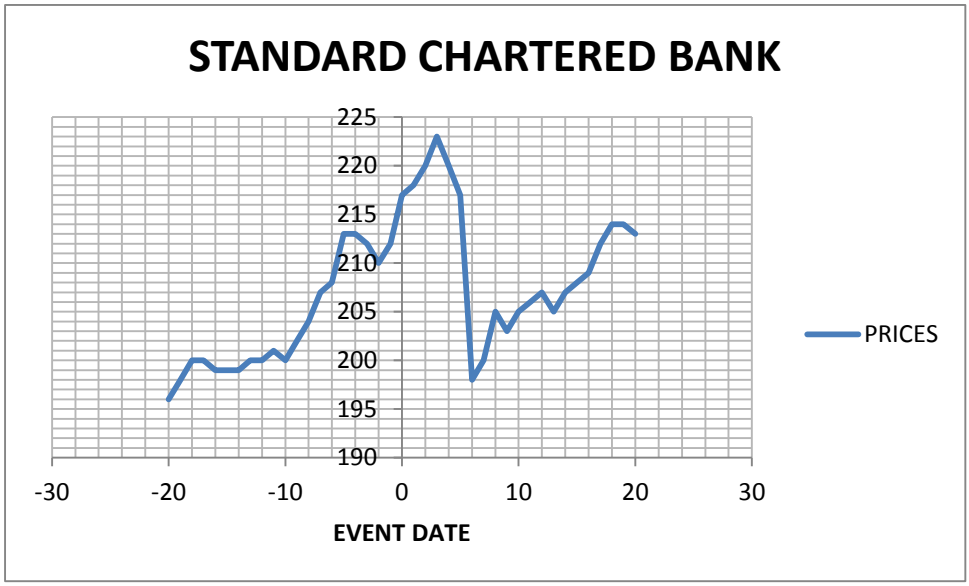
Figure 4.17 Effects of Rights Issue in DTB Bank Share Prices



Source: Research Data (2013)

For DTB Bank, the trend of share prices rises to 94.5 on day 2 and then drops gradually to 90 on day 8 then continues droping up to 88.5 on day 11 to 13 as seen in figure 4.17. The share prices DTB Bank shares were collected and t-test conducted. It was found that the computed t-value was -2.318 which was greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, was rejected. The computed P-value of 0.0316 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights.

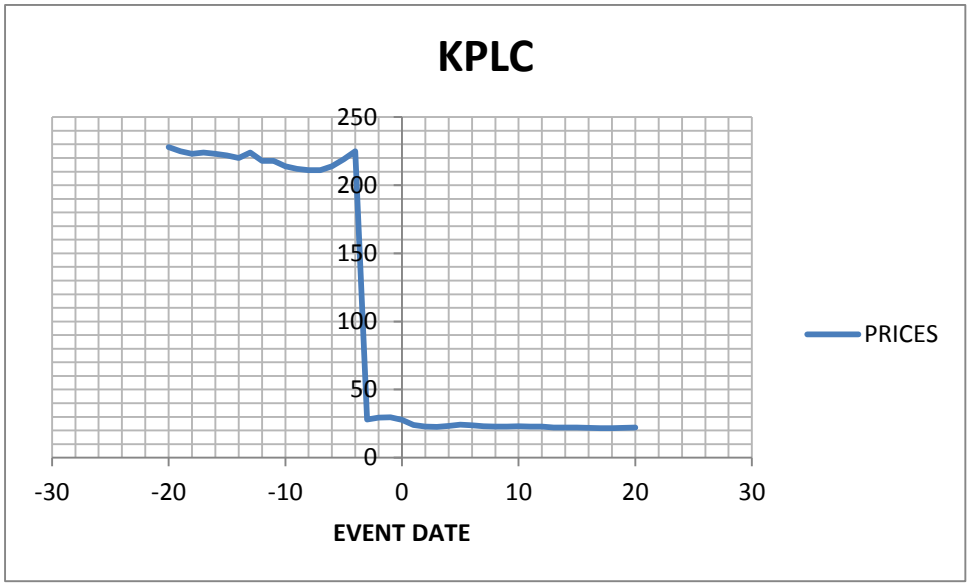
Figure 4.18 Effects of Rights Issue in Standard Chartered Bank Share Prices



Source: Research Data (2013)

For Standard Chartered Bank, the trend of share prices rises and later drops as seen in figure 4.18. The share prices of Standard Chartered Bank shares were collected and t-test conducted. It was found that the computed t-value was -3.2804 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$,was rejected. The computed P-value of 0.0039 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights

Figure 4.19 Effects of Rights Issue in KPLC Share Prices



Source: Research Data (2013)

For KPLC, the trend of share prices drops 3 days before announcement from 225 to 28 then continues droping as seen in figure 4.19. The share prices of KPLC shares were collected and t-test conducted. It was found that the computed t-value was -10.807 which is greater than the t-critical value of 2.093, thus it falls within the rejection region. The null hypothesis, Ho: $U_1=U_2$, was rejected. The computed P-value of 0.0000 was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights

4. 2. The investor's reaction to rights issue announcement

The null hypothesis stated that there is no significant reaction of investors to rights issue announcement, indicating that the population mean before and after rights issue announcement are equal. I.e. Ho: $U_1=U_2$. The hypothesized mean difference is equal to zero and the alternative hypothesis is H_1: $U_1 \neq U_2$

Table 4.2.1: Trading Volumes

One Sample Test							
					95% confidence level		
	Volume			test value = 0			
COMPANY	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
TPS SERENA	-0.5578	19	2.093	10475	31610	52560	0.5835
OLYMPIA CAPITAL	1.0444	19	2.093	-260588	538740.2	17564	0.3094
NIC BANK	0.1277	19	2.093	-2285.5	76765	72200	0.8997
KENYA AIRWAYS	-1.7611	19	2.093	80325	136730	297380	0.0943
DIAMOND TRUST BANK	-1.8348	19	2.093	42010	7680	91700	0.0822
STANDARD CHARTERED BANK	-0.305	19	2.093	2957.5	5570	11485	0.2368
CFC BANK	-1.2216	19	2.093	1423.87	7752.2	10599.93	0.2943
KENYA COMMERCIAL BANK	1.6957	19	2.093	-539058	2591235	1513120	0.1063
KPLC	-5.142	19	2.093	222438.1	53000	497876.2	0.0005

Source: Research Data (2013)

The volumes of TPS Serena shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -0.5578 which falls within the acceptance region. On examining the P-value, it was 0.5835 which is greater than the alpha value of 0.05, indicating that we accept the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investor's reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Olympia capital shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 1.0444 which falls within the acceptance region. On examining the P-value, it was 0.3094 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has

no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of NIC bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 0.1277 which falls within the acceptance region. On examining the P-value, it was 0.8997 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Kenya Airways shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.7611 which falls within the acceptance region. On examining the P-value, it was 0.0943 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Diamond Trust Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.8348 which falls within the acceptance region. On examining the P-value, it was 0.0822 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Standard Chartered Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -0.3050 which falls within the acceptance region. On examining the P-value, it was 0.7637 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of Kenya Commercial Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was 1.6957 which falls within the acceptance region. On examining the P-value, it was 0.1063 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1=U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

The volumes of KPLC shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -5.142 which falls outside the acceptance region. The P-value computed was 0.0005 is lesser than the alpha value of 0.05 thus we fail to reject the alternative hypothesis H_1: $U_1 \neq U_2$. Thus it was concluded that rights issue announcement has a significant effect investors reaction.

The volumes of CFC Bank shares traded were obtained and t-test conducted. From the table 4.2.1, the computed t-value was -1.2216 which falls within the acceptance region. On examining the P-value, it was 0.2368 which is greater than the alpha value of 0.05, indicating that we reject the null hypothesis: Ho: $U_1 = U_2$. This means that rights issue announcement has no significant effect on investors reaction and the difference in the sample means may have been due to chance or other factors.

From the results presented above,the null hypothesis was accepted(failed to reject) for all firms except 1 out of the 9 firms that were analyzed, representing 11.1% of the population. It can therefore be concluded that rights issue announcement has no significant effect on investors reaction to rights issue announcements.

4.3 Comparison of Companies Doing Rights versus Those That Have Not Offered Rights Issue

The null hypothesis stated that there is no relationship between rights issue and company's share performance; indicating that the population mean of company doing rights and one that has not done rights should be equal; i.e. Ho: $U_1=U_2$. The hypothesized mean difference is equal to zero and the alternative hypothesize is H_1: $U_1 \neq U_2$.

Industrial and Allied Sector

Table 4.3.1 EABL Versus KPLC 2010 Rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-2.6548	19	2.0930	0.0036	-0.0052	0.0020	0.0156
CAR	1.1332	19	2.0930	-0.0049	-0.0488	-0.0585	0.2712
R_{it}	2.9570	19	2.0930	0.0040	0.0047	-0.0032	0.0081
R_{mt}	0.9530	19	2.0930	0.00085	-0.0012	0.0029	0.3525

Source: Research Data (2013)

The AR and CAR for EABL were calculated and their t-test done for the event period of KPLC rights issue. From table 4.3.1, the findings were that AR ranged between -0.52% and 0.020% while for CAR it ranged between -4.88% and -5.85%. The computed AR_t was -265.48% and it lies outside the acceptance region while CAR_t was 113.32% and it lies within the acceptance region. The CAR was not significant and the mean difference of -0.49% could be due to chance or error. This is confirmed by the P-value of 27.12% being greater than $\alpha = 0.05$. AR was significant and this is confirmed by the calculated P-value of 1.56% being lesser than $\alpha = 0.05$.

The individual stock return R_{it} of EABL, the computed R_{it} was 295.7% which falls outside the acceptance region, also the computed market returns R_{mt} was 95.3% and it lies within the acceptance region. The R_{it} was significant and this is confirmed by the P-value being lesser than 0.05. R_{mt} was not significant with a mean difference of 0.41% could be due to chance or error.

Table 4.3.2 KenGen Versus KPLC 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.4516	19	2.0930	-0.00034	0.00029	-0.00039	0.6567
CAR	3.4316	19	2.0930	-0.00026	0.00720	0.00210	0.0028
R_{it}	-0.5426	19	1.7291	-0.00045	0.00090	0.0000	0.5937
R_{mt}	-0.3180	19	2.0930	0.00025	-0.00020	0.0003	0.7542

Source: Research Data (2013)

The AR and CAR for Kengen were calculated and their t-test done over the event period of KPLC rights issue announcement date. From table 4.3.2, the findings were that AR ranged between 0.029% and -0.039% while for CAR it ranged between 0.72% and 0.21%. The computed AR_t was 0.4516 and it lies within the acceptance region while CAR_t was 3.4316 and it lies outside the acceptance region. The CAR was significant with a mean difference of -0.026% and thus not equal to the hypothesized mean of zero, which is confirmed by the calculated P-value of 0.28% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of -0.034% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 65.67% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Kengen, the computed R_{it} was -54.26% which falls within the acceptance region while the computed market returns R_{mt} was 31.8% which lies within the acceptance region. The R_{it} was not significant and the mean difference of -0.045% could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.3 BAT Versus KPLC 2010 Rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-0.7645	19	2.0930	0.00165	0.0013	-0.0020	0.4540
CAR	-0.9665	19	2.0930	0.00285	-0.0135	-0.0192	0.3459
R_{it}	1.0800	19	2.0930	-0.0025	-0.0023	0.0027	0.2935
R_{mt}	0.9531	19	2.0930	0.00085	-0.00286	-0.0012	0.3525

Source: Research Data (2013)

The AR and CAR for BAT were calculated and their t-test done over the event period of KPLC rights issue announcement date. From table 4.3.3, the findings were that AR ranged between -0.20% and 0.13% while for CAR it ranged between -1.92% and -1.35%. The computed AR_t was -76.45% and it lies within the acceptance region while CAR_t was -96.65% and it lies outside the acceptance region. The CAR was not significant with a mean difference of 0.285% could have been due to chance or error, which is confirmed by the calculated P-value of 34.59% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of 0.165% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 45.40% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of BAT, the computed R_{it} was 108% which falls within the acceptance region while the computed market returns R_{mt} was 95.31% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.4 Bamburi Versus KPLC 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.9544	19	2.0930	-0.00221	0.00207	-0.00234	0.3519
CAR	-0.0768	19	2.0930	0.00025	0.00927	0.00977	0.9396
R_{it}	-0.3378	19	2.0930	0.00088	-0.00226	-0.00051	0.7393
R_{mt}	0.9531	19	2.0930	-0.00084	-0.001180	-0.00286	0.3525

Source: Research Data (2013)

The AR and CAR for Bamburi were calculated and their t-test done over the event period of KPLC 2010 rights issue announcement date. From table 4.3.4, the findings were that AR ranged between 0.207% and –0.234% while for CAR it ranged between 0.927% and 0.977%. The computed AR_t was 95.44% and it lies within the acceptance region while CAR_t was -7.68% and it lies outside the acceptance region. The CAR was significant with a mean difference of 0.025% and is confirmed by the calculated P-value of 93.96% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of 0.207% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 35.19% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Bamburi, the computed R_{it} was -33.78% which falls within the acceptance region while the computed market returns R_{mt} was 95.31% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.5 EA Cables Versus KPLC 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-1.0137	19	2.0930	0.00203	-0.00241	0.00165	0.3225
CAR	-3.524	19	2.0930	0.01128	-0.01336	0.00920	0.0023
R_{it}	1.3082	19	2.0930	-0.00294	-0.00069	-0.00656	0.2064
R_{mt}	0.9531	19	2.0930	-0.00053	-0.0018	-0.00286	0.3535

Source: Research Data (2013)

The AR and CAR for EA Cables were calculated and their t-test done over the event period of KPLC 2010 rights issue announcement date. From table 4.3.5, the findings were that AR ranged between 0.241% and –0.165% while for CAR it ranged between 1.336% and 0.920%. The computed AR_t was -101.37% and it lies within the acceptance region while CAR_t was –352.4% and it lies outside the acceptance region. The CAR was significant with a mean difference of 1.128% and is confirmed by the calculated P-value of 0.0023 being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of 0.203% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 32.25% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of EA Cables, the computed R_{it} was 130.82% which falls within the acceptance region while the computed market returns R_{mt} was 95.31% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.6 Athi River versus KPLC 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.9688	19	2.0930	-0.0041	0.08227	0.00086	0.3448
CAR	-1.1018	19	2.0930	0.0445	1.5728	1.66178	0.2843
R_{it}	0.09146	19	2.0930	0.0003	-0.000285	-0.00086	0.9281
R_{mt}	0.9531	19	2.0930	0.0005	-0.0018	-0.00286	0.3525

Source: Research Data (2013)

The AR and CAR for Athi River were calculated and their t-test done over the event period of KPLC 2010 rights issue announcement date. From table 4.3.6, the findings were that AR ranged between 8.227% and 0.086% while for CAR it ranged between 157.28% and 166.178%. The computed AR_t was 96.88% and it lies within the acceptance region while CAR_t was -110.18% and it lies within the acceptance region. The CAR was not significant with a mean difference of 4.45% and is confirmed by the calculated P-value of 28.43% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of -0.41% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 34.48% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Athi River computed R_{it} was 96.88% which falls within the acceptance region while the computed market returns R_{mt} was 95.31% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.7 Mumias Sugar Versus KPLC 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	1.15726	19	2.0930	-0.0229	0.04583	-0.0000	0.2615
CAR	-2.5605	19	2.0930	0.0559	0.8065	0.9183	0.0191
R_{it}	-2.0618	19	2.0930	0.0042	-0.0083	0.0000	0.05318
R_{mt}	0.9531	19	2.0930	-0.0009	-0.0012	-0.0029	0.3525

Source: Research Data (2013)

The AR and CAR for Mumias sugar were calculated and their t-test done over the event period of KPLC 2010 rights issue announcement date. From table 4.3.7, the findings were that AR ranged between 4.583% and -0.0000 while for CAR it ranged between 80.65% and 91.83%. The computed AR_t was 115.726% and it lies within the acceptance region while CAR_t was -256.05% and it lies outside the acceptance region. The CAR was significant with a mean difference of 0.0559 and is confirmed by the calculated P-value of 1.91% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of -2.29% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 26.15% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Mumias sugar computed R_{it} was -206.18% which falls outside the acceptance region while the computed market returns R_{mt} was 95.31% which lies within the acceptance region. The R_{it} was significant . R_{mt} was not significant also thus the mean difference could be due to chance or error.

Finance & Investment Sector

Table 4.3.8 Centum Investments Versus Olympia Capital Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-1.4353	19	2.0930	0.0040	-0.0045	0.0035	0.1674
CAR	0.1764	19	2.0930	-0.0011	-0.0377	-0.0399	0.8618
R_{it}	1.8506	19	2.0930	-0.00575	0.0046	-0.0069	0.0798
R_{mt}	0.9394	19	2.0930	-0.00135	0.0006	-0.0021	0.3593

Source: Research Data (2013)

The AR and CAR for Centum investments were calculated and their t-test done over the event period of Olympia capital rights issue announcement date. From table 4.3.8, the findings were that AR ranged between -0.45% and 0.35% while for CAR it ranged between -3.77% and -3.99%. The computed AR_t was -143.53% and it lies within the acceptance region while CAR_t was 17.64% and it lies within the acceptance region. The CAR was not significant with a mean difference of could have been due to chance or error, which is confirmed by the calculated P-value of 86.18% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of 0.40% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 16.74% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Centum Investments, the computed R_{it} was 185.06% which falls within the acceptance region while the computed market returns R_{mt} was 93.44% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.3.9 Barclays Bank of Kenya Versus DTB 2012 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-0.4683	19	2.0930	0.00062	-0.00062	0.00062	0.6440
CAR	2.6526	19	2.0930	-0.00578	0.00277	-0.00878	0.0157
R_{it}	1.2048	19	2.0930	-0.0014	0.0034	0.000582	0.2431
R_{mt}	1.1201	19	2.0930	-0.00076	0.00265	0.00113	0.2766

Source: Research Data (2013)

The AR and CAR for BBK were calculated and their t-test done over the event period of DTB 2012 rights issue rights issue announcement date. From table 4.3.9, the findings were that AR ranged between -0.062% and 0.062% while for CAR it ranged between 0.277% and -0.8783%. The computed AR_t was -46.83% and it lies within the acceptance region while CAR_t was 265.26% and it lies outside the acceptance region. The CAR was significant with a mean difference of -0.00578 and is confirmed by the calculated P-value of 1.57% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of 0.062% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 64.4% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of BBK, the computed R_{it} was 120.48% which falls within the acceptance region while the computed market returns R_{mt} was 112.01% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.1 NBK versus DTB 2012 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.6814	19	2.0930	-0.001195	0.00115	-0.00124	0.5038
CAR	5.1209	19	2.0930	-0.0112	0.01865	-0.00375	0.0000
R_{it}	-0.5616	19	2.0930	0.00098	0.00132	0.00328	0.5810
R_{mt}	1.1201	19	2.0930	-0.00076	0.00265	0.00113	0.2766

Source: Research Data (2013)

The AR and CAR for NBK were calculated and their t-test done over the event period of DTB 2012 rights issue rights issue announcement date. From table 4.4.1, the findings were that AR ranged between 0.115% and -0.124% while for CAR it ranged between 1.865% and -0.375%. The computed AR_t was 68.14% and it lies within the acceptance region while CAR_t was 512.09% and it lies outside the acceptance region. The CAR was significant with a mean difference of -0.0112 and is confirmed by the calculated P-value of 0.0000 being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of -0.1195% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 50.38% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of NBK, the computed R_{it} was -56.16% which falls within the acceptance region while the computed market returns R_{mt} was 112.01% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.2 Barclays Bank of Kenya Versus KCB 2010 Rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-0.0399	19	2.0930	0.00011	-0.0000	0.00022	0.9686
CAR	7.8966	19	2.0930	-0.02520	0.0156	-0.0348	0.0000
R_{it}	0.0842	19	2.0930	-0.00033	-0.00386	-0.00452	0.9338
R_{mt}	1.1404	19	2.0930	-0.00100	0.00182	-0.00019	0.2683

Source: Research Data (2013)

The AR and CAR for BBK were calculated and their t-test done over the event period of KCB 2010 rights issue announcement date. From table 4.4.2, the findings were that AR ranged between -0.0000% and -0.022% while for CAR it ranged between 1.56% and -3.48%. The computed AR_t was -3.99% and it lies within the acceptance region while CAR_t was 789.66% and it lies outside the acceptance region. The CAR was significant with a mean difference of -2.52% and is confirmed by the calculated P-value of 0.0000% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of -0.11% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 96.86% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of BBK, the computed R_{it} was -8.42% which falls within the acceptance region while the computed market returns R_{mt} was 114.04% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.3 Equity Bank Versus KCB 2010 Rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.9124	19	2.0930	-0.0717	0.1461	0.00267	0.3730
CAR	-0.7151	19	2.0930	0.0530	2.8260	2.9319	0.4832
R_{it}	1.6183	19	2.0930	-0.0069	0.0112	-0.00267	0.12208
R_{mt}	-0.3176	19	2.0930	0.000235	-0.00019	0.00028	0.7542

Source: Research Data (2013)

The AR and CAR for Equity bank were calculated and their t-test done over the event period of KCB 2010 rights issue announcement date. From table 4.4.3, the findings were that AR ranged between 14.61% and 0.267% while for CAR it ranged between 282.60% and 293.19%. The computed AR_t was 91.24% and it lies within the acceptance region while CAR_t was -71.51% and it lies within the acceptance region. The CAR was not significant and is confirmed by the calculated P-value of 48.32% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of -7.17% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 37.30% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Equity bank, the computed R_{it} was 161.83% which falls within the acceptance region while the computed market returns R_{mt} was -31.76% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.4 Barclays Bank of Kenya versus Standard Bank 2012 rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-0.5691	19	2.0930	0.00319	-0.00451	0.00186	0.5760
CAR	-0.8687	19	2.0930	0.00445	-0.00294	0.00596	0.3959
R_{it}	0.5691	19	2.0930	-0.0032	0.00835	0.00198	0.5760
R_{mt}	-0.7344	19	2.0930	0.00052	0.00141	0.00245	0.4717

Source: Research Data (2013)

The AR and CAR for Barclays Bank were calculated and their t-test done over the event period of Standard Chartered Bank 2012 rights issue announcement date. From table 4.4.4, the findings were that AR ranged between -0.451% and -0.186% while for CAR it ranged between -0.294% and 0.596%. The computed AR_t was -56.91% and it lies within the acceptance region while CAR_t was -86.87% and it lies within the acceptance region. The CAR was not significant with a mean difference of -0.294% and is confirmed by the calculated P-value of 39.59% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of 0.319% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 57.60% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of BBK, the computed R_{it} was 56.91% which falls within the acceptance region while the computed market returns R_{mt} was -73.44% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.5 Equity Bank Versus Standard Bank 2012 Rights issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	0.1056	19	2.0930	0.00025	0.000219	-0.00029	0.9170
CAR	-1.1854	19	2.0930	0.00305	-0.00876	-0.00266	0.2505
R_{it}	-0.4154	19	2.0930	0.00106	0.00055	0.00267	0.6825
R_{mt}	-0.7344	19	2.0930	0.00052	0.00141	0.00245	0.4717

Source: Research Data (2013)

The AR and CAR for Equity bank were calculated and their t-test done over the event period of Standard Chartered Bank 2012 rights issue announcement date. From table 4.4.5, the findings were that AR ranged between 0.0219% and -0.0288% while for CAR it ranged between -0.876% and 0.266%. The computed AR_t was 10.56% and it lies within the acceptance region while CAR_t was -118.54% and it lies within the acceptance region. The CAR was not significant with a mean difference of 0.305% and is confirmed by the calculated P-value of 25.05% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of 0.025% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 91.70 being greater than $\alpha = 0.05$.

The individual stock return R_{it} of Equity bank, the computed R_{it} was -41.54% which falls within the acceptance region while the computed market returns R_{mt} was -73.44% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.6 NBK versus KCB 2010 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	1.1287	19	2.0930	-0.00294	0.00262	-0.00325	0.2731
CAR	2.0388	19	2.0930	-0.00713	0.02810	0.01385	0.0556
R_{it}	-1.1136	19	2.0930	0.00327	-0.00524	0.00129	0.2794
R_{mt}	-0.3176	19	2.0930	0.00023	-0.000188	0.00028	0.7542

Source: Research Data (2013)

The AR and CAR for NBK were calculated and their t-test done over the event period of KCB 2010 rights issue announcement date. From table 4.4.6, the findings were that AR ranged between 0.262% and -0.325% while for CAR it ranged between 2.810% and 1.385%. The computed AR_t was 112.87% and it lies within the acceptance region while CAR_t was 203.88% and it lies outside the acceptance region. The CAR was significant with a mean difference of -0.713% and is confirmed by the calculated P-value of 5.56% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of -0.294% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 27.31% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of NBK, the computed R_{it} was -111.36% which falls within the acceptance region while the computed market returns R_{mt} was -31.76% which lies within the acceptance region. The R_{it} was not significant and the mean difference could be due to chance, thus it can be said it was equal to zero. R_{mt} was not significant also thus the mean difference could be due to chance or error.

Table 4.4.7 NBK versus Standard Bank 2012 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	1.5418	19	2.0930	0.00320	0.0030	-0.00339	0.1396
CAR	-1.6150	19	2.0930	0.00875	0.0327	0.0502	0.1228
R_{it}	-1.3317	19	2.0930	0.00288	-0.00229	0.00347	0.1987
R_{mt}	-0.7344	19	2.0930	0.00052	0.00141	0.00245	0.4717

Source: Research Data (2013)

The AR and CAR for NBK were calculated and their t-test done over the event period of Standard Bank 2012 rights issue announcement date. From table 4.4.7, the findings were that AR ranged between 0.30% and -0.339% while for CAR it ranged between 3.27% and 5.02%. The computed AR_t was 154.18% and it lies within the acceptance region while CAR_t was -161.5% and it lies within the acceptance region. The CAR was not significant with a mean difference of 0.320% and is confirmed by the calculated P-value of 12.28% being greater than $\alpha = 0.05$. AR was not significant and the mean difference of 0.1747% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 28.26% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of NBK computed R_{it} was -133.17% which falls within the acceptance region while the computed market returns R_{mt} was -73.44% which lies within the acceptance region. The R_{it} was not significant and R_{mt} was also not significant also thus the mean difference could be due to chance or error.

Commercial & Service Sector

Table 4.4.8 NMG versus Kenya Airways 2012 Rights Issue

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
AR	-1.1059	19	2.0930	0.001747	-0.00166	0.001834	0.2826
CAR	4.4276	19	2.0930	-0.01312	-0.00236	-0.02860	0.0003
R_{it}	1.3699	19	2.0930	-0.00227	0.00119	-0.00335	0.1867
R_{mt}	1.6971	19	2.0930	-0.00141	0.00289	0.00068	0.1060

Source: Research Data (2013)

The AR and CAR for Nation Media Group were calculated and their t-test done over the event period of Kenya Airways 2012 rights issue announcement date. From table 4.4.8, the findings were that AR ranged between -0.166% and 0.1834% while for CAR it ranged between -0.236% and -2.860%. The computed AR_t was -110.59% and it lies within the acceptance region while CAR_t was 442.76% and it lies outside the acceptance region. The CAR was significant with a mean difference of -0.236% and is confirmed by the calculated P-value of 0.03% being lesser than $\alpha = 0.05$. AR was not significant and the mean difference of 0.1747% could be due to chance, thus AR can be said to be equal to zero. This is confirmed by the calculated P-value of 28.26% being greater than $\alpha = 0.05$.

The individual stock return R_{it} of NMG computed R_{it} was 136.99% which falls within the acceptance region while the computed market returns R_{mt} was 169.71% which lies within the acceptance region. The R_{it} was not significant . R_{mt} was also not significant also thus the mean difference could be due to chance or error.

In conclusion for a Comparative study of companies (on industry basis) doing rights versus those that have not done rights issue, 17 comparisons of companies that have not done rights issue at a particular event period of those that had done rights issue were done in the analysis and out of the 17, only EABL had its AR significant. The p-value of EABL was 1.56% which less than the alpha of 0.05. Thus, 94% of the AR was significant. The CAR of this companies were done and 8 out of 17 showed that the CAR was significant. The remaining 9 showed that the CAR was not significant. The t-stat and p-value of the industrial and allied sector were as follows;- EABL, t-stat of 113.32% and p-value of 27.12%, Kengen t-stat of 343.16% and p-value of 100.28%, BAT, t-stat of -96.65% and p-value of 34.59%, Bamburi t-stat of -

7.68% and p-value of 93.96%, EA Cables, tstat of -352.4% and p-value of 0.23%. Athi river, t-value of -1.1018 and p-value of 28.43% and Mumias sugar; t-stat of -256.05% and p-value of 1.91%. Therefore, it can be concluded that there is no relationship between rights issue and company's share performance.

Table 4.4.9 MAR & MCAR- All Companies in the study Combined

			one sample test		95% confidence level		
			test value = 0				
	T stat	Df	T-critical	Mean Difference	Mean 1	Mean 2	P-value
MAR	-0.1025	19	2.0930	0.6545	-0.6542	0.6542	0.0000
MCAR	0.2531	19	2.0930	0.0005	0.0147	0.0136	0.8029

Source: Research Data (2013)

Using the table 4.4.9, MAR and MCAR for all companies in the study combined were calculated and their t-test done over the event period. The findings were that MAR ranged between -65.47% and 65.42% while for MCAR it ranged between 14.65% and 1.36%. The computed MAR was -10.25% and it lies outside the acceptance region while MCAR was -25.31% and it lies within the acceptance region. The MCAR was not significant with a mean difference of 0.05% due to chance or error., which is confirmed by the calculated P-value of 80.29% being greaterr than $\alpha = 0.05$. MAR was significant and has the mean difference of 65.45%.This is confirmed by the calculated P-value of 0.0000% being lesser than $\alpha = 0.05$.

It can therefore be concluded that MAR surrounding rights issue announcement of the combined companies under study was significant but MCAR was not significant.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Findings by Kakiya 2007, similar to this study found out that traded volumes are not significantly affected by announcement. The findings from the study were that trends in stock returns are dependent on event announcement. Traded volumes are not significantly affected by announcement. Earnings announcement had a significant effect on stock returns when CAR was evaluated indicating market inefficiency but AR was not significant for individual companies. From the findings of the study, it was concluded that the Nairobi Stock exchange is not semi-strong form efficient. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on effect of rights issue on company's share performance and only companies that have done rights and those that form part of the NSE 20 share index formed the target population.

Olesaaya E.(2010) did a research on the effects of rights issue on stock returns and he investigated companies listed at the NSE. Oleesaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolio to measure and analyze the abnormal returns. In this study, Olesaaya assumed that the abnormal returns reflect the stock market's reaction to the announcement of rights issue. The findings of this study done by Olesaaya shows negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter. This studies are therefore consistent with this study.

5.2 Conclusion

The main objective of the study was to determine the effect of rights issue on company's share performance and it was a case study of companies' listed at the NSE. The study was based on a five year study period from the year 2007 to 2012 and all companies that form part of the NSE 20 Share index. Secondary data was obtained from the NSE. Data was available for all companies listed in the NSE. A data collection sheet was used to extract information on traded volumes, share prices and the market indices to facilitate determining the effect of rights issue announcement on company's share performance.

From the results obtained, on the effect of rights issue on investor's reaction, trading volumes of the subsequent firms were analysed and the null hypothesis was accepted for all firms except 1 firm which is KPLC (which had its name changed later to Kenya Power) where the alternative hypothesis was accepted (thus we failed to accept the alternative hypothesis for KPLC)out of the 9 companies that were analyzed. The t-stat of KPLC was 514.20% which lies outside the acceptance region and p-value of KPLC was 0.0005 which is less than the alpha 0.005 and thus it is the only company that showed significance. It can therefore be concluded that at th NSE, rights issue announcements have no significant effect on investor's reaction.

On the effect of rights issue on company's share performance before and after rights issue, 9 companies were analysed on the company doing rights issue on the event period of 20 days before and 20 days after and t-test was conducted on all companies. The null hypothesis, Ho: $U_1=U_2$, was rejected. The computed P-value of all companies was lesser than the alpha value of 0.05. Thus, there was a significant mean difference in the hypothesized population mean of zero. Therefore, rights issue announcement has a significant effect on the share price performance of companies doing rights and 100% of the results indicated a positive significance level. It can therefore be concluded that there is an effect of rights issue announcement on share price performance of companies doing rights issue.

A Comparative study of companies (on industry basis) doing rights versus those that have not done rights issue was done and a purposive sampling design was used. 17 comparisons of companies that have not done rights issue at a particular event period of those that had done rights issue were done in the analysis and out of the 17, only EABL had its AR significant. The p-value of EABL was 1.56% which less than the alpha of 0.05. Thus, 94% of the AR was significant. The CAR of this companies were done and 8 out of 17 showed that the CAR was significant. The remaining 9 showed that the CAR was not significant. The t-stat and p-value of the industrial and allied sector were as follows;- EABL, t-stat of 1.1332 and p-value of 0.2712, Kengen t-stat of 3.4316 and p-value of 1.0028, BAT, t-stat of -0.9665 and p-value of 0.3459, Bamburi t-stat of -0.0768 and p-value of 0.9396, EA Cables, tstat of -3.524 and p-value of 0.0023. Athi river, t-value of -1.1018 and p-value of 0.2843 and Mumias sugar; t-stat of -2.5605 and p-value of 0.0191. Therefore, it can be concluded that there is no relationship between rights issue and company's share performance.

It can therefore be concluded that rights issue announcements have no significant effect on investor's reaction and that there is a relationship between rights issue and company's share

performance. 100% indicated a positive significance level thus positive stock price change during the period surrounding the announcement of a rights issue. It can therefore be concluded that there is an effect of rights issue before and after rights issue is done on a particular security. On the investor's reaction to rights issue announcements, the null hypothesis was accepted for all firms except KPLC which is 1 out of the 9 firms that were analyzed, representing 11% of the population. It can therefore be concluded that rights issue announcement has no significant effect on investors reaction to rights issue announcements.

5.3 Recommendations

From the conclusion, the following recommendations are made:-
Investors should be keen enough to monitor the behavior of stocks and also compare the share performance of various securities in various industries so as to maximize their returns.

Insider trading affects many investors who are not aware and should be declared a crime whereby the government should punish those who engage in it. This should be effected by the Capital Market Authority. This is because insider trading only benefits them selfishly at the expense of the public.

Investors should learn more about the securities exchange to avoid making losses and reduce the high costs charged by the financial advisors. This can be done by monitoring the securities even through the media.

5.4 Areas for further research

This study recommends that further studies be done on the effect of rights issue on financial and share performance of the companies listed at the NSE. This includes daily and yearly assessment and ratio analysis. This is because this study focused on the effect of rights issue on company's share performance and daily share prices, market index and trading volumes were used thus therefore, an yearly overview could be an interesting study to identify the effects on company's financial and share performance. Also, other studies on other events announcement on share prices and traded volumes should be done so as to show clearly the effect of events announcement on traded volumes.

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Table 1: Data Collection Sheet for trading volumes and share prices for each firm

DAY	Closing Share Price	Traded Volumes	Market Index
-20			
-19			
-18			
-17			
-16			
-15			
-14			
-13			
-12			
-10			
-9			
-8			
-7			
-6			
-5			
-4			
-3			
-2			
-1			
0 (Announcement date)			
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Source: Data Analysis (2013)

Appendix I: Companies Listed at the Nairobi Securities Exchange

Agricultural

- Eaagads Ltd
- Kakuzi
- Kapchorua Tea Co Ltd
- Limuru Tea Co Ltd
- Rea Vipingo Plantations
- Sasini Ltd
- Williamson Tea Kenya Ltd

Automobiles and Accessories

- Car & General Kenya Ltd
- CMC Holdings
- Marshalls(EA)
- Sameer Africa

Banking

- Barclays Bank
- CFC Stanbic of Kenya Holdings
- Diamond Trust Bank
- Equity Bank
- Housing Finance
- I & M Holdings
- Kenya Commercial Bank
- National Bank of Kenya
- NIC Bank
- Standard Chartered
- Co-operative Bank of Kenya

Commercial & Services

- Express Kenya
- Hutchings Biemer
- Kenya Airways
- Longhorn Kenya
- Nation Media Group
- ScanGroup
- Standard Group

- TPS EA (Serena)
- Uchumi Supermaket

Construction & Allied

- ARM Cement
- Bamburi Cement
- Crown Paints
- E.A Cables
- E.A Portland Cement

Energy & Petroleum

- Kengen
- KenolKobil
- KP& LC
- Total Kenya
- Umeme Ltd

Insurance

- British American Investments
- CIC Insurance
- Jubilee Holdings
- Kenya Re Corpoation
- Liberty Kenya Holdings
- Pan Africa Insurance

Investment

- Centum Investment Co Ltd
- Olympia Capital Holdings
- Trans-Century

Manufacturing & Allied

- A.Baumann & Co Ltd
- B.O.C Kenya Ltd
- B.A.T Kenya Ltd
- Carbacid Investments
- East African Breweries
- Eveready EA
- Kenya Orchards

- Mumias Sugar
- Unga Group

Telecommunication & Technology

- Access Kenya Group
- Safaricom Ltd

Growth & Enterprise Market Segment (GEMS)

- Home Africa Ltd

(Source: NSE Website)

Appendix II: NSE 20-Share Index constituent companies

Agricultural Sector

• Rea Vipingo

• Sasini

Commercial and Services Sector

• CMC Holdings

• Kenya Airways

• Safaricom

• Nation Media Group

Finance and Investment Sector

• Barclays Bank of Kenya

• Equity Bank

• Kenya Commercial Bank

• Standard Chartered Bank

• Co-operative Bank of Kenya

Industrial and Allied Sector

• Bamburi Cement

• British American Tobacco

• KenGen

• East African Breweries

• East African Cables

• Kenya Power and Lighting Company

• Athi River Mining

• Mumias Sugar

Alternative Investment Market Segment

• Express Kenya

(Source: NSE Website)

Appendix III: Companies that have done rights between 2007 – 2012

- Kenya Airways
- Diamond Trust Bank
- NIC
- CFC Stanbic Holdings
- Standard Chartered Bank
- KCB Group
- TPS East Africa
- Kenya Power
- Olympia Capital

Note:

In 2007, Olympia Capital, Diamond Trust Bank and NIC Bank issued rights. In 2008, DTB and KCB issued rights. In 2009, there was no single rights issue done in this year. 2010 was one of the best rights issue year. This year, KCB Group, TPS East Africa, Standard Chartered and Kenya Power did rights. In 2011, there was one rights issue done in this year. 2012 was the best year that rights were done as compared to other years. In this year, 5 companies issued rights. This include:- Kenya Airways, Diamond Trust Bank, NIC, CFC Stanbic Holdings and Standard Chartered Group.

(Source: NSE Website)