RELATIONSHIP BETWEEN FIRM'S CAPITAL STRUCTURE AND

DIVIDEND PAYOUT: THE CASE OF COMPANIES QUOTED AT NAIROBI

STOCK EXCHANGE

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DECLARATION

This is my original work and it has not been presented either in part or full, for the award of any degree in this or any other University.

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APPROVAL OF RESEARCH PROPOSAL

This research proposal has been submitted for examination with our approval as University supervisors.

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ACKNOWLEDGEMENTS

DEDICATION

To my wife Risper, my son Kibet and daughter Sharon.

ABSTRACT

Every company requires funds to meet its financial obligations. In Kenya, the most common sources of funds that are available to companies are shareholders' equity and debt. An optimal combination of debt and equity increases a company's earnings consequently leading to high dividend payout. Shareholders invest in shares with the hope of receiving income in form of dividends, capital gains or bonus issues. Many companies quoted at the Nairobi Stock Exchange (NSE) however, often pay little or no dividends. The objective of the study is to find out the role of capital structure in dividend payouts whether high level of debt in the capital structure contributes to payment or non-payment of dividends. The findings from the study will help interested investors and owners in predicting the likely implications of capital structure decisions on companies in regard to payment of dividends. The study will also close the gap in the existing body of knowledge since not much has been done in this area. The study covers companies quoted at the exchange for the period 1998 to 2004. Secondary data from 34 companies was used. To obtain the sample, a given number of companies from each category of companies at the NSE were randomly selected. The number of companies for each category was decided proportionately. Correlation coefficient was used to test for relationships and Chi-square test was used to test for differences in capital structures and dividend payout patterns at 5% level of significance on the basis of two-way classification model. It is hypothesized that there is a strong relationship between capital structure and dividend payout.

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LIST OF ABBREVIATIONS

AIM: Alternative Investment Market

CMA: Capital Markets Authority

CR: Capital Structure

DPS: Dividend Per Share

EPS: Earnings Per Share

Fig: Figure

IPO: Initial Public Offer

NPV: Net Present Value

NSE: Nairobi stock Exchange

P/E: Price to Earning Ratio

ROE: Return on Equity

WAAC: Weighted Average Cost of Capital

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CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Investors put their money in stocks with the hope of receiving income in form of dividends, capital gains or both. Dividends may be paid once or twice a year. Investors prefer high dividends because it provides certainty about a company's financial status. On the other hand, investors believe that little dividend payout is more favorable because taxation on a dividend is higher than on capital gain since withholding tax on dividends is at 5% yet that on capital gain is non-existent. A company may chose to pay no dividends in order to reduce borrowings. Profit is a vital source of funds for investment for companies and so if they were to distribute too much to the shareholders, they would interfere with their long-term performance. The size of the dividend to be paid depends on the amount of profit made and the level of profit that the management declares to be distributed to the shareholders. Before deciding on the apportioning of a company's earnings into dividends and retained earnings, the Board of Directors must understand various conflicting factors apart from capital structure that may influence dividend policy. Such factors include flow of liquidity funds, corporate liquidity, and stock price and investor satisfaction. Dividend policy is normally set by the directors of a company and answers questions of the effects of cash dividend paid, given the firm's capital budgeting and borrowing decisions. Recommended dividends will then be put to the company's Annual General Meeting (AGM) for the shareholders to vote on. Every decision made by corporate managers will influence the profitability, dividends and value of the company.

Although companies can change their dividend policies it is advisable that each company establishes its own dividend policy and stick to it because frequent changes can inconvenience existing stockholders, send unintended signals, and convey the impression of dividend instability, all of which can have negative implications for

stock prices particularly when lower or no dividends are paid. At the same time companies must meet their debt obligations before declaring dividends because interest on borrowed funds must be paid whether the company makes profits or not. However, shareholders are entitled to a share as the reward for the risk they have taken in investing in the company. The Board of Directors may balance up these two demands on the profit, and will then recommend the size of the dividend they think is appropriate.

Companies often opt for debt financing due to the many accruing benefits. Njeru (2003), on his study about the effects of capital structure on company valuation, points out that debt capital is a low-cost source of finance in Kenya because interest on debt is an allowable charge for tax purposes. Companies can obtain debt capital and repay according to the expected cash flows, giving the company a greater flexibility to plan and control its capital structure. Equity is more costly due to its permanence nature. Companies engage in loan financing if it cannot be supported by internally generated funds or its mission is to expand or increase business portfolio. The most common types of long term financing in Kenya include long-term debt, common stock, preferred stock and retained earnings. Mainly banks, in form of, loans, Institutional investors in form of Pension funds, Mutual Funds and Life Assurance companies and Commercial Papers provide debt capital. The company's funding mix is known as its *capital structure*. Capital structure involves a trade-off between risk and return. As the company begins to substitute cheap debt for expensive equity, the weighted average cost of capital (WAAC) reduces. Using more debt raises the risk borne by stockholders. Higher risk tends to lower a stock's price. It is the concern of companies to maintain an optimal capital structure (debt-equity ratio).

Capital funds in form of equity are raised at the Nairobi Stock Exchange (NSE). NSE was founded in 1954. Over the years the number of stocks traded stagnated at around 55 quoted companies of which some have since been de-listed or suspended for non-

compliance with the requirements of the exchange. NSE has experienced slow growth over its entire existence since it was founded. Only 48 quoted companies have been on operation for a long time. The NSE is a forum for trading in stocks, bonds, and shares. Here, companies from across the spectrum of industry gather to raise the public capital that will allow them to expand, in the process creating new jobs, products, services, and opportunities. As their profits improve, so the dividends are passed on to their shareholders, in a cycle of economic empowerment that reflects the stability and well being of a nation. Investors in public companies do not only have to be net worth individuals, the small investor can also stake a claim of a company except where some member firms chose to deal only with institutions or larger investors. Capital Markets Authority (CMA) strives to ensure that companies disclose to investors all they need to know not only during the public issue but also on a continuous basis after listing. From CMA Act Cap 12 (2)(d) (1999), a securities exchange shall within four months after the end of each financial year make available to the Authority, and to the investors, a summary of information on companies listed at the securities exchange. It is suppose to provide information on earnings per share, dividend per share, shareholding structure (institutional, individual and foreign investors), principal or controlling shareholders and total number of shareholders.

The companies under study are operating under the same economic and political environments. Government policies and macro-economic factors like interest rates and inflation impact on all the quoted companies at the same time hence their effects on individual companies are offset. In each of the quoted companies, capital structure overrides company-specific activities like capital budgeting decisions and dividend policy. Similar accounting procedures apply for all the listed companies and management prudence is observed by all the quoted companies as it is one of the major requirements by CMA before a company is quoted and as long as a company remains quoted. As mentioned earlier capital structure is the funding mix between

equity and debt. Different levels of debt dictate the levels at which a company can pay dividends. Besides capital structure, there are other factors that influence dividend payout. These factors are held constant in order to undertake this study. These factors include profits, market price, liquidity and working capital.

1.2   Statement of the Problem

A company has many methods of raising required operational funds. In Kenya, companies obtain their capital funds from two main sources –equity and debt. At any one time equity alone or a mix of both may be used in financing a company. A company that uses very high leverage may face high risk of debt as it is obligated to pay consistent interest to its lenders. This limits payment of dividends to the shareholders. Low or non-payment of dividends discourages investors from investing in shares thus reducing the shareholding capacity. Further, at very high levels of debt, a company may suffer the loss of its tax shield (if interest charges turn profits into losses there is no further tax advantage) and business may experience loss of confidence due to bankruptcy risk. From companies' annual reports it is evident that many companies quoted at NSE do not pay dividends consistently, and when they pay, the level of payout is very low contrary to shareholders' expectations. Over the years the number of stocks traded at the exchange stagnated at around 55 quoted companies and some of the quoted companies have been de-listed by CMA, thus listing now stands at current 48 companies. The reason for de-listing being non-compliance with CMA's requirements. Many of the problems that were faced by the de-listed companies were largely to do with funding. There is need to analyze the role capital structure plays in regard to the inability of companies to pay dividends and even the threats of bankruptcy. The role of capital structure in dividend payouts has not been comprehensively established.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective was to determine whether there is a relationship between capital structure and dividend payout.

1.3.2 Specific Objectives

The specific objectives were to:

1 Assess the capital structure patterns of the companies quoted at the NSE.
2 Determine the dividend payout patterns exhibited by companies quoted at the NSE.
3 Find out the relationship between capital structure and dividend payment ratios among the companies quoted at the NSE.

1.4 Hypotheses

1 There is no significant difference in capital structures of companies quoted at the NSE.
2 There is no significant difference in dividend payout patterns for companies quoted at the NSE.
4 There is no significant relationship between capital structure and dividend payouts For companies quoted at the NSE.

1.5 Significance of the Study

The findings of this study will help corporate managers and other researchers to understand the nature of capital structures of the quoted companies. The established relationship will enable companies predict the role of capital structures and the implications of changes in capital structures among companies operating in the Kenyan market in regard to payment of dividends. The outcome of the study will help individual and corporate investors to make informed decisions when reviewing companies to invest in. The results of the study are also expected to be of value to

policymakers-in government, CMA, consultants and company directors when reviewing policies related to capital market regulations. Finally, the study is expected to be of much benefit in academic field since little research has been done locally in this area.

CHAPTER 2: LITERATURE REVIEW

2.1   Dividend Policy

Dividends are attractive for investors looking to secure current income. High dividend payout is more important for investors because dividends provide certainty about the company's financial well-being and decrease and increase of a dividend distribution can affect the price of a security. Lease (2000) found out that dividend paying stocks do better in the long run than do nonpayers—and those with the highest payouts do best of all. A Standard and Poor's study of total returns (price appreciation plus dividend income) shows that payers outdistanced nonpayers by 1.9 percentage points annually from 1980 through 2003. Therefore companies should be seen to pay relatively high dividends or at least to embrace an upward pattern of payout if they have to pay slightly lower for a bad year than for the preceding year. Dividend payouts are in two forms, either as cash dividends or stock dividends. A cash dividend is paid to shareholders in form of cash while a stock dividend is dividend converted into stock. Lowering or omitting dividend distributions would also negatively affect companies that have a long-standing history of stable dividend payouts. Van Horne and Wachowics (2001) indicate that stability of dividend payment is an attractive feature to many investors. Rather than vary dividends directly with changes in earnings per share, a company raises the dividend only when reasonably confident a higher dividend can be maintained. These studies however do not disclose the capital structure layout that forms the capital base of a company.

Lease (2000) observes that if a firm follows the NPV Rule (reinvesting all retained earnings in positive NPV projects) and distributes whatever is left from its internally generated cash flow, the firm is defined as following *a residual dividend policy*. The amount of dividend is simply the cash left after the firm makes desirable investments. There is high variability of the dividends paid under a residual dividend policy. Under this policy it would be difficult for a shareholder to predict future dividends.

Alternatively, managers may pay out more than this residual amount by raising debt or equity. In these cases we say that the firm is following a managed dividend policy. If managers believe that a managed dividend policy is important to their investors and share price valuation can be positively influenced by the firm's dividend policy, they will adopt such a policy. Under the managed dividend policy, managers are managing the dividend level and growth; dividends are growing in even increments and are predictable. Shareholders would have much more confidence in predicting the dividend in the following year than would shareholders under a residual policy.

A company can hope to achieve a regular dividend increasing regularly; this would be the case of a stable company. It is however a less desirable pattern since it implies flat earnings. A company would also hope to achieve a regular dividend increasing irregularly; this would probably be the best pattern. Variable dividends offer an investor little on which to base his future dividend expectations, therefore investors may not react to dividend changes to impact negatively on market price of stock. A company's alternatives to paying out earnings as dividends include undertaking more projects, repurchasing the company's own shares, acquiring new companies and profitable assets, and reinvesting in financial assets. A high dividend payout policy means less retained earnings, which will consequently result into low market price per share. A low or non-payment of dividends may produce a higher share price because it accelerates earnings growth. From the studies of Lease there is no mention about the mix ratio of debt and equity that comprise a company's capital. It does not mention when earnings are retained as regards the position of debt and equity.

Studies on determination of dividend payouts have separately been done with similar results observed. Studies done by Muchendu (2003) and Abdul (1993) on determinants of dividends by quoted companies at NSE, shows that some of the significant determinants of dividends include profits, market price, liquidity and working capital. Muchendu also found that most companies quoted at NSE have

maintained a rather constant payout over the years and that quoted companies did not perform well during the period of study owing to high interest rates and inflation levels. Previous Kenyan studies however, are silent about the influence of debt on payment of dividends. Harvey (1995) has noted that many bank and debt agreements forbid companies to pay out dividends above certain levels. This implies a limitation to payment of dividends. Lease (2000) examined the joint determination of dividends; insider ownership of stock, and leverage found that dividend payouts are negatively related to leverage. These studies were carried out on US companies and since the environment in which the study was carried is very different from the Kenyan environment it is therefore important to carry out a study that reflects on Kenyan companies.

From Lease (2000) study of investor reaction to dividend announcements the conclusion was that shareholders and debt holders perceive dividends as a means of transferring assets from the common corporate pool to the exclusive ownership of the shareholders. Accordingly, such transfers enrich shareholders at the expense of debt holders and holders of preferred stock as well as warrant holders, and others. Shareholders therefore prefer to have large dividend payments, all else being equal. Conversely, lenders prefer to restrict dividend payments to maximize the firm's resources that are available to repay their claims. Lease (2000) also found that bond investors react to announcement of dividend changes; he observes that there is little reaction to dividend increases and a negative reaction to   dividend decreases. His findings were more consistent with dividend changes conveying information about firm prospects than with dividends serving as a means for shareholders to expropriate value from bondholders. Since shareholders prefer to have large dividend payments and debt holders prefer restricted dividend payment it is important to carry out a study on the relationship of dividend payment and debt. It is also important to note that these studies are silent about this particular aspect.

Dividends do serve as a means to reduce the conflict of interest between managers and shareholders regarding the use of free cash flows. On the same study by Lease, he indicates that optimality of investment by managers is quantitatively determined. When addressing the agency problem between shareholders and managers they showed that managers who optimally invest generate a market- to-book ratio (called *Tobin's Q ratio)* that exceeds 1 because the market value reflects the investment (the book value) *plus* the net present value of the investment. An increase in the dividend payout by a firm with a Q ratio of less than 1 is good news because it means less money spent on sub optimal investment. This evidence supports the argument that dividends may constrain management's ability to invest beyond the levels that shareholders desire. Overall these results suggest that dividends do serve as a means to reduce the conflict of interest between managers and shareholders regarding the use of free cash flows. Njeru (2003) confirms that managers do not share complete information with shareholders and shareholders base their decisions on what they perceive to be happening, in addition to what they are told by management. He observes that this information asymmetry leads to several conflicts and that one of the ways that companies use to reduce these conflicts is the dividend policy. Regular payment of dividends is one strategy used by companies that intend to raise capital from the primary markets. From the studies above, dividends serve as a means to reduce the conflict of interest between managers and shareholders regarding the use of free cash flows, there is however no mention of debt as a likely restriction to payment of dividends. This study seeks to find out the role of debt in regard to payment of dividends.

2.2   Early Theories Supporting Dividend Relevance

2.2.1   Bird -In -The-Hand Theory

The principal conclusion of (Modigliani and Miller) MM's dividend irrelevance theory is that dividend policy does not affect the required rate of return on equity, Ks. This

conclusion has been hotly debated in academic circles (Brigham and Houston, 1998). In particular, Myron Gordon and John Lintner argued that Ks decreases as the dividend payout is increased because investors are less certain of receiving the capital gains, which are supposed to result from retaining earnings than they are of receiving dividend payments. They said, in effect, that investors value expected dividends more highly than expected capital gains because the dividend yield component, D_1/P_0 is less risky than the g (growth) component; the total expected return equation, $Ks = D_1/P_0 + g$.

2.2.2 Tax Preference Theory

There are three tax-related reasons for thinking that investors might prefer a low dividend payout to high payout. First, because dividends are taxed more than capital gains, wealthy investors (who own most of the stock and receive most of the dividends) might prefer to have companies retain and plow earnings back into the business. Earnings growth would presumably lead to stock price increases, and capital gains would be substitute for dividends. Secondly, because taxes are not paid on the gain until a stock is sold coupled with time value effects; amount of taxes paid in the future has a lower effective cost than a dollar paid today. Thirdly, if a stock is held by someone until he or she dies, no capital gains tax is due at all – the beneficiaries who receive the stock can use the stock's value on the death day as their cost basis and thus completely escape the capital gains tax. Because of these tax advantages, investors may prefer to have companies retain most of their earnings. If so, investors would be willing to pay more for low-payout companies than for otherwise similar high –payout companies.

The theories are diagrammatically illustrated in the following section:

Stock Price P_0

(sh)

Bird–in–the Hand

Tax Preference

P_0

MM: irrelevance

0   50%   100% payout

Cost of Equity K_s
(%)

Tax Preference

K_{s_0}

MM: Irrelevance

Bird-in-the- hand

0   50%   100% payout
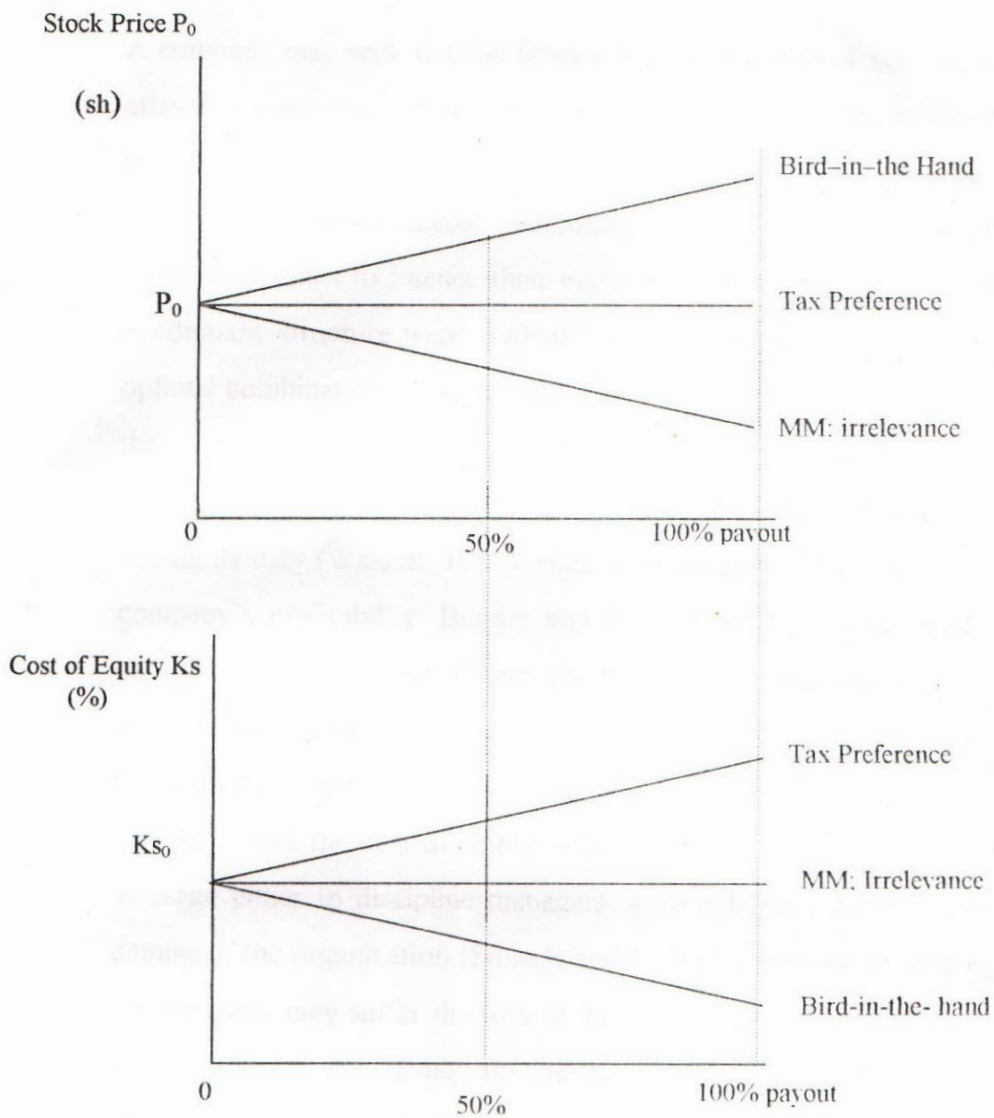
Fig 2.1: Illustration of Dividend Theories- Irrelevance, Bird-In-The Hand and Tax Preference

Source: Brigham and Houston (1998)

From the Early Theories and the empirical studies it is clear that the whole subject of dividends is marred with controversy, other scholars referring to the whole subject as 'dividend policy controversy'. This research enters into the circle of debate in a bid to shed light into this field of dividends.

2.3   Capital Structure and Earning Levels

A company may seek outside finance by selling bonds or seeking loans if it has more attractive investments than it has internal cash flow. When a company borrows, it gets into debt. According to Njeru (2003) found that larger growing firms with stable earnings have lesser degree of liquidity and depends on borrowed funds as well as retained earnings to finance their expansion activities. He also observes that changes in company structure were gradual in most companies. A company that engages non-optimal combination of equity and debt may not maximize earnings while a company that uses too much debt runs the risk of bankruptcy whereby in both cases dividend payout may decline or cease. Bankruptcy occurs when a firm cannot pay the interest due on its debt (Watson, 1986). High leverage ratio therefore, can be detrimental to a company's profitability. Bender and Ward (1998) point out that firms with higher earnings are able to pay higher dividends, so, to the extend then that higher debt levels raises expected earnings per share, leverage works to increase the stock price. Conversely, Bender and Ward indicate that higher debt levels increase the firm's risk, and that raises the cost of equity, which works to reduce the stock price. The use of leverage either to discipline managers or to achieve economic gain can lead to the demise of the organization (Simerly and Li 2005). Further, at very high levels of debt, the company may suffer the loss of its tax shield (if interest charges turn profits into losses there is no further tax advantage) and business may experience loss of confidence due to bankruptcy risk. In spite of the justifications to discourage use of debt, companies would still have to engage debt financing if they are to achieve fast business growth but they should do so with strict managerial caution.

It is not always easy to identify an optimal capital structure. Chew, (2001) notes that "The search of optimal capital structure is like the search for Truth or Wisdom: you will never completely attain either goal". Some studies however have been carried out which help shed some light about the optimal capital structure. Domash (2002), for

example, analyzed more than 50 firms, some of which filed for bankruptcy and some of which did not. He notes that some onetime moneymaking monsters such as Polaroid and Kmart, failed when their earnings slumped to a point where they could not service their debt. He observes that requiring a current ratio of at least 1.5 ensures that the firm's current assets exceed its short-term debts by a 50 percent margin. This prerequisite screens out companies that are cash flow positive now but are weighed down by previously built-up short-term debts. Domash suggests that total debt/equity ratios of 0.5 or less usually define low-debt companies and requiring ratios below 0.4 means an extra margin of safety.

Brigham and Houston (1998) indicate that the optimal payout ratio for a given firm is a function of its capital structure. Simerly and Li (2002) report that an appropriate funding mix is a critical decision for any business organization. The decision is important not only because of the impact such a decision has on an organization's ability to deal with its competitive environment but also because it should maximize income to its shareholders. Many theories have been developed which showed that financing decisions doesn't matter in perfect capital markets. Harvey (1995) on his lecture "Capital Structure and Payout Policies'' indicates that Modigliani and Miller (MM) in their famous *Proposition I*, implied irrelevance of capital structure when they stated that the total value of a firm is the same with whatever debt- equity ratio (assuming no taxes). In practice however, capital structure does matter because there are imperfections that are most likely to make a difference, for example taxes, the costs of bankruptcy and the costs of writing and enforcing complicated debt contracts. Rioba (2003) carried out a study on Predictability of Ordinary Stock Returns at the Nairobi Stock Exchange (NSE) and found that NSE does not operate as an efficient market. Factors that support this conclusion include transaction and floatation costs, irrational investor behaviour, taxes, conflict of interest between managers and other stockholders, and the differences in information held between managers and other interested parties. Given that NSE is an inefficient market capital structure is

therefore relevant for all the companies quoted on the NSE. It is on the basis of capital structure relevance that this study is carried out.

Simerly and Li (2002) cites the prevailing argument, originally developed by Modigliani and Miller (MM) in 1958 which indicates that an optimal company financing exists which balances the risk of bankruptcy with the tax savings of debt which once established, this capital combination should provide greater benefit to stockholders than they would receive from an all-equity firm. They comment that despite (MM's) theoretical appeal, researchers in financial management have not found the optimal capital structure and the best that academics and practitioners have been able to achieve are prescriptions that satisfies short-term goals. At leverage level of zero, the company is totally equity financed, so the average finance cost is the same as the cost of equity. Such was the case for Nation stock in 2002 in which the company rode high on a debt-free crest.

High earnings levels mean high dividend payout other things- like reinvesting profits, being held constant. Brigham and Houston (1998) also indicate that changes in the use of debt will cause changes in earnings per share (EPS) and, consequently in stock prices. Cost of debt varies with use of different percentages of debt, the higher the percentage of debt, the riskier the debt, and hence the higher the interest the lenders will charge. The East African Portland Cement procured a liability in 1996 that was yen-denominated. The liability tied fortunes of the cement company closely to currency fluctuations; every time the Kenya shilling depreciates against the hard currencies Portland pays a heavy cost. This situation reduces profitability leading to low or non-payment of dividends. The company's debt overhang rendered the firm's leverage ratio at a perilous 36:64, which practically means that at this ratio the firm is mortgaged 64 per cent to foreign entities. Consequent to this the management undertook to turn things around. It strove for 50 to 50 percent ratio.

For a company that does not retain much of its profits, high earnings lead to high

payment of dividends and therefore optimal combination of debt and equity is necessary for maximum dividend payout. Brigham and Houston (1998) emphasized that every company has its own optimal level of debt/equity ratio. They sought to clarify this aspect by use of diagrammatic representation. This section therefore shows how a company utilizes debt and equity mix to maximize earnings from which dividends are paid.

Risk (CV$_{EPS}$)

Additional Risk to
Stockholders from
use of financial
leverage: Financial
Risk

Basic Business
Risk

0   Debt/Equity (%)

Expected EPS
(Shs)

Peak EPS

0   50%   Debt/Equity (%)
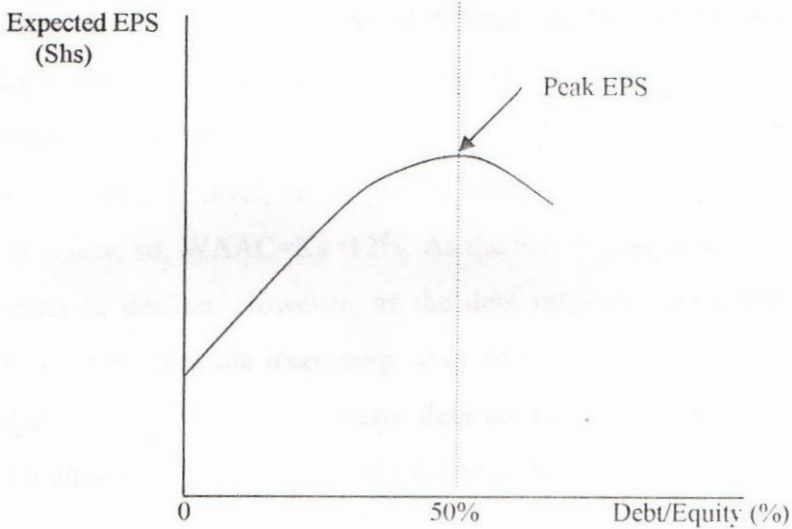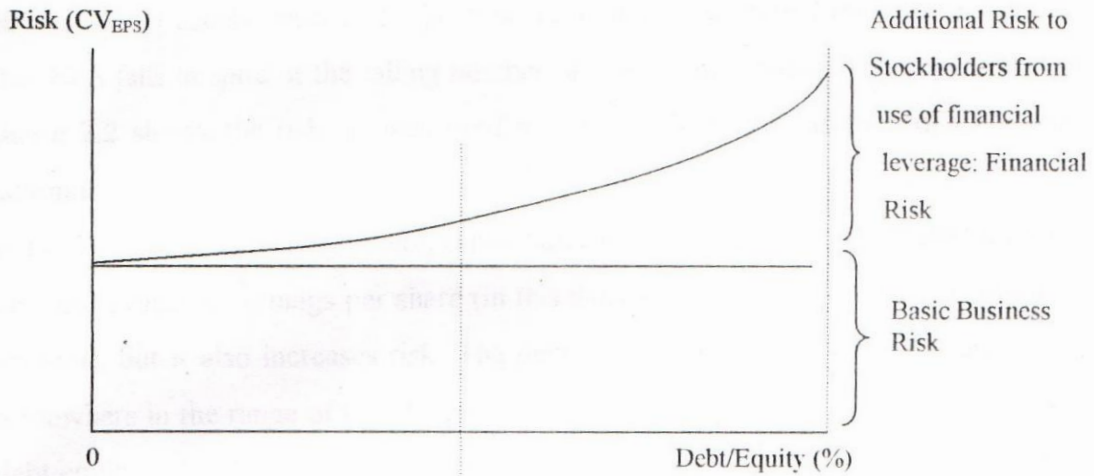
Fig 2.2: The relationships among EPS, Risk and Financial Leverage.
Source: Brigham and Houston (1998)

From the illustration above the expected EPS rises until the firm is financed with 50 percent debt (peak EPS). Interest charges rise, but this effect is more than offset by the declining number of shares outstanding as debt is substituted for equity. However

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EPS peaks at a debt ratio of 50 percent, beyond which interest rates rise so rapidly that EPS falls in spite of the falling number of shares outstanding. The upper panel of figure 2.2 shows the risk, as measured by the coefficient of variation of EPS, rises continuously, at an increasing rate, as debt is substituted for equity.

It is clear then, that using leverage has both good and bad effects: higher leverage increase expected earnings per share (in this illustration, until the D/E ratio equals 50 percent), but it also increases risk. The debt ratio should not exceed 50 percent but somewhere in the range of 0 to 50 percent. Although expected EPS is maximized at a debt/equity ratio of 50, it however does not call for 50 percent debt as optimal capital structure. The optimal capital structure is the one that maximizes the price of the firm's stock, and this generally calls for a debt ratio, which is lower than the one that maximizes expected EPS. This statement is demonstrated in figure 2.3 below, which shows stock price and WAAC at different debt/equity ratios. Carrying over the results from figure 2.2, where EPS is maximized when the debt/equity ratio equals 50 percent, Brigham and Houston observes that the estimated stock price is maximized at a lower debt level, (at 40 percent debt). If a company uses zero debt, its capital is all equity, so, WAAC=Ks=12%. As the firm begins to use lower-cost debt, its WAAC starts to decline. However, as the debt ratio increases, the costs of both debt and equity rise, and the increasing costs of the two components begin to offset the fact that larger amounts of low-cost debt are being used. At 40 percent debt, WAAC hits a minimum of 10 percent, and rises after that as the debt ratio is increased.

Cost of Capital
(%)

Ks

WAAC

12%

Min=10%

Kd(1-T)

0   40   Debt/Equity (%)

Stock Price
(Sh)

Maximum price

0   40   Debt/equity (%)
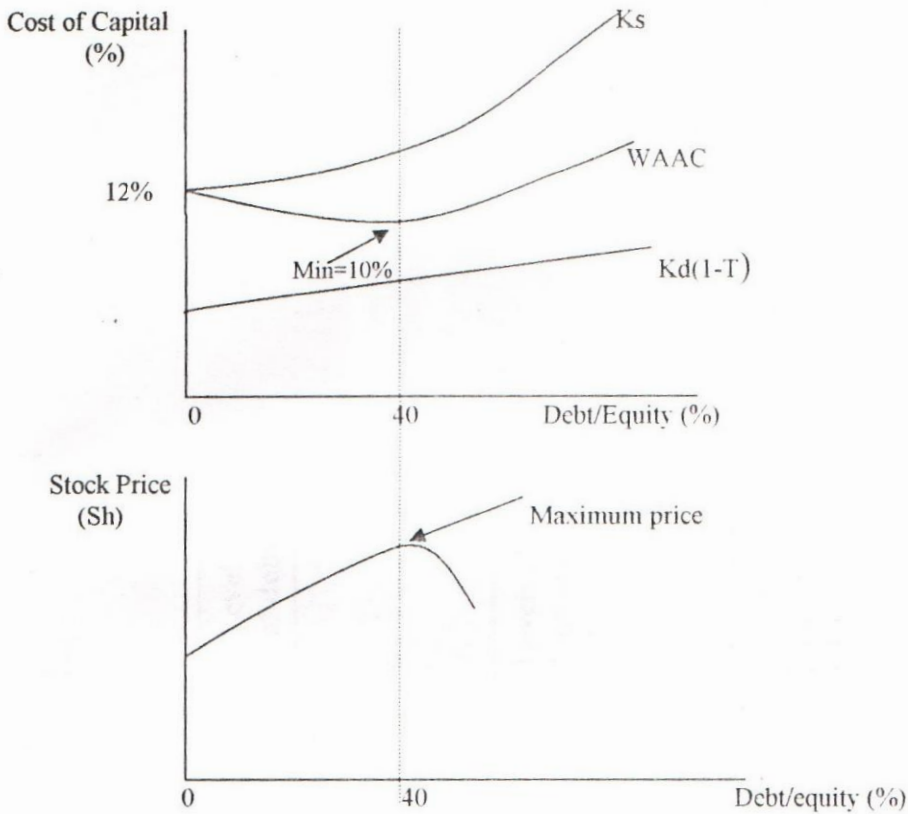
Fig 2.3:   Effects of Capital Structure on EPS, Cost of Capital, and Stock Price.
Source: Brigham and Houston (1998)

2.4   Conceptual Framework

The level of debt in the funding mix has direct relationship with level of earnings. Low
or high debt financing earns little to the company because of non-optimality and the
risk involved. The first and third arrows, pointing down on the flow chart illustrate
this. This may lead to low or no dividend payout. An optimal combination of debt and
equity (shown by second arrow pointing down) leads to high income from which
dividends are paid. The level of dividends paid will however depend on the level of
earnings retained. Where a company faces low or no dividend payouts it revises its
capital structure (1) and (2). Under the same circumstances a company may also have
to revise its retention policy (decision to increase/decrease   retention
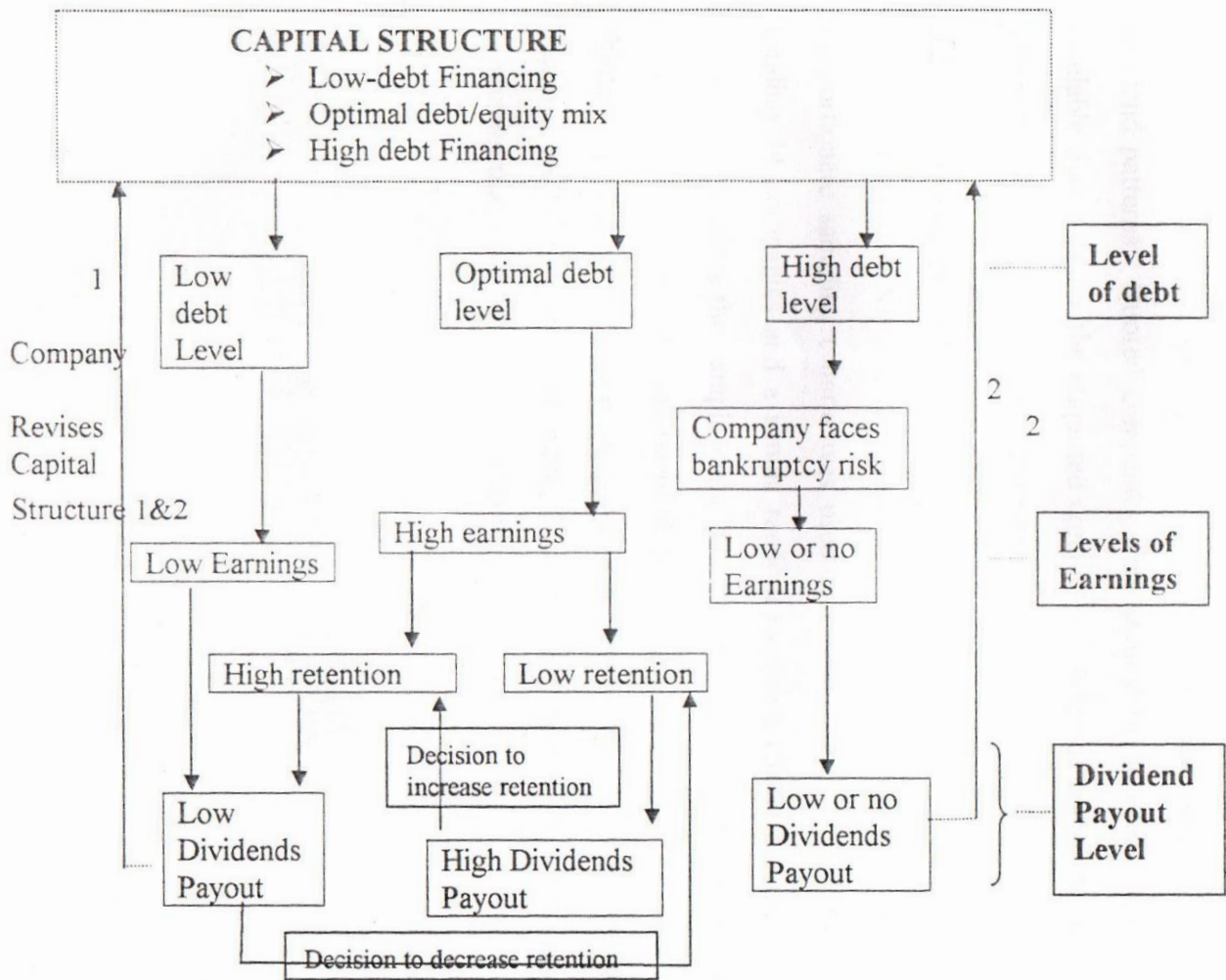
Fig 2.4: Conceptual Framework for the relationship between Debt Financing, Earnings Levels and Dividend payout
Source: Own Literature compilation, 2005

CHAPTER 3: METHODOLOGY

3.1 Research Design

This is a quantitative study where data collected (secondary) was analyzed to test for relationships.

3.2 Study Population

The population of this study consisted of companies on all sectors continuously quoted at the NSE over a 7-year period between January 1998 and December 2004. A company is continuously quoted if data is available for the 7-year period for which the study is undertaken. This time period is considered because it is sufficiently reasonable time length to accommodate all changes that occurred in the payout dividend patterns. Quoted companies were studied because data was more easily available than data for the unquoted companies. A list of companies that the study was undertaken can be found in Appendix v.

3.3 Sampling Procedure

The sample was 70.83% of the population. To select a sample from every sector, proportionate sampling criteria was used to obtain a cross-sector/segment sample totaling 34 companies and a simple random sampling (SRS) method was used to systematically select the sample units. This sample size is taken because it is large enough to reflect the true position of all the quoted companies. It is more than two-thirds of the population. Since companies listed in the Alternative Investment Market Segment (AIMS) keeps on changing from time to time the study analyzed data for companies that have been on listing for the last 7 years.

Table 3.1   Company Samples

Company Category	Total No. of Companies	Percentage (%)	Sample
Main Investment Market Segment (MIMs)			
Agricultural	4	75%	3
Commercial and Services	8	62.5%	5
Finance and Investment	11	72.73%	8
Industrial and Allied	16	75%	12
Alternative Investment Market Segment	9	66.67%	6
Total	**48**	**70.83%**	**34**

Source: Own Compilation

3.4   Data Collection Procedure

The method of data collection was documentary. The source of data (secondary) was Nairobi Stock Exchange and individual company annual financial reports. The data that was collected/calculated (based on 7-year period) are: Number of shares in issue, Dividend payout ratio [Div/EPSX100], Earnings per share (EPS) [Total Earnings attributable to shareholders X 100], share price at the end of the year, Total liability [Short term +Long term], Total Equity [Common +Preferred] and Debt/Equity (D/E) ratio [(D/A)/(1-D/A)]. It is worth noting that D/E and D/A (Debt/Asset) ratios are simply transformations of each other, D/A=[(D/E)/(1+D/E)], this is the ratio that was used in this study. Other important ratios in determination of dividend policy include: Dividend yield, Retention ratio/plowback ratio and P/E ratio. For this research Debt/Equity ratio was used to determine the level of leverage and dividend payout was based on dividend payout ratio. Collection of data was done using the data collection sheet shown in appendix iii.

3.5   Data Analysis and test of Hypotheses

3.5.1   Data Analysis

For each of the companies studied the debt/equity ratio was calculated using the formula in appendix iii. Dividing cash dividends by net assets for the number of years the company shares were actively traded on the stock exchange calculated the Dividend payout ratio.

3.5.2   Test of Hypotheses

Hypothesis 1

In order to test the statistical significance on this hypothesis, chi- square test was used to compare the mean dispersion of companies' distributions at 5% level of significance on the basis of two-way classification model.

Hypothesis 2

Chi- square test was also used to compare the mean dispersion of companies' distributions at 5% level of significance on the basis of two-way classification model.

Hypothesis 3

Correlation coefficient was applied to the data to test for relationships between capital structure and dividend payouts for the quoted companies.

Table 3.2   Data Analysis and test of Hypotheses

	$H_{0\ 1}$	$H_{0\ 2}$	$H_{0\ 3}$	Results
Capital Structure	$X^2=1.571$ df=3, 5%		r =0.656	Accept
Dividend Payout		$X^2=0.857$ df=4, 5%	r =0.656	Accept

Source: Own Analysis

3.6 Data Presentation

The research results was summarized and presented in figures and tables for ease of interpretation, understanding, reading and discussion.

(Index must!)

CHAPTER 4: RESULTS AND DISCUSSION

The data analyzed was organized into tables showing the 34 sampled companies for the years 1998 up to 2004 (appendix ii and iii). This arrangement was useful in drawing general graphs for both capital structure and dividend payout in order to facilitate comparison.

The data was also summarized into tables comprising companies in the five categories of companies quoted at the Nairobi Stock Exchange. This also enabled the researcher to draw comparison across the sectors in MIMS and in AIMS through graphical representation. The data was used to run a chi-squire test from which results helped in drawing conclusions. The presentation of the analysis was organized according to the hypotheses of the study.

4.1: General Findings

The comparison of capital structure and dividend payout patterns showed that that there was a significant relationship. This means that the leverage trend has a significant direct relationship with the level of dividend payout. This is clear from Pearson Correlation coefficient that showed a 0.656 correlation. It follows then that companies that engage debt financing are able to operate with sufficient funds to enhance their output in terms of production, marketing, staff training and expansion. Such companies are able to capture market niche for growth and competitiveness. These companies also have their returns high and therefore from their earnings they can pay dividends.

4.2: Hypotheses Test

There were three hypotheses to be tested that enabled the researcher to make conclusions on the stated objectives.

4.2.1: Hypothesis 1

Chi-square test was carried out in order to make conclusions about the hypotheses (hypotheses 1 and 2). This was an appropriate test because it compares the observed measure with expected measure for each period hence facilitating comparison. Chi-square (Table 4.1 and 4.4) is appropriate to analyze small ratio values because "if the cell counts are roughly equal, the chi- square approximation is adequate when the average expected counts are as small as 1 and 2. This protects against unequal expected counts" (Moore 1995). The average values in table 4.3 were used to run the SPSS. The table below shows the results obtained.

Table 4.1: Chi-Square test

Capital structure

	Observed N	Expected N	Residual
1.60	1	1.8	-.8
1.70	2	1.8	.3
1.90	3	1.8	1.3
2.70	1	1.8	-.8
Total	7		

Test Statistics

	Capital structure
Chi-Square[a]	1.571
df	3
Asymp. Sig.	.666

a. 4 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.8.

Source: Own Analysis, 2006

From table 4.1 above, computed chi-square is 1.571 whereas the critical chi-square is 7.815 therefore the null hypothesis that there is no significant difference in capital structures of companies quoted at the NSE is confirmed. This further confirms the pattern displayed by the graphs discussed below.

Capital structure ratios were organized into table of averages per category for each year (Table 4.2). The values were used to draw graphs that help in comparing the capital structure patterns for companies on the different categories.

Table 4.2: Average capital structure ratios

Year Category	1998	1999	2000	2001	2002	2003	2004
Agriculture	0.2109	0.2981	0.3133	0.3247	0.4186	0.4201	0.429
Commercial	0.9975	0.9972	1.156	1.0404	1.0924	1.5072	1.185
Financial & Investment	11.4735	5.1752	5.052	5.5595	6.1706	6.4584	6.5976
Industrial and Allied	0.4245	0.5613	0.5044	0.502	0.4612	0.7072	0.7732
AIM	0.536	0.9214	1.6915	2.2013	0.5402	0.5359	0.4813

Source: Own Analysis, 2006

The figure below shows the graphs of capital structure pattern for the different company sectors/segment.
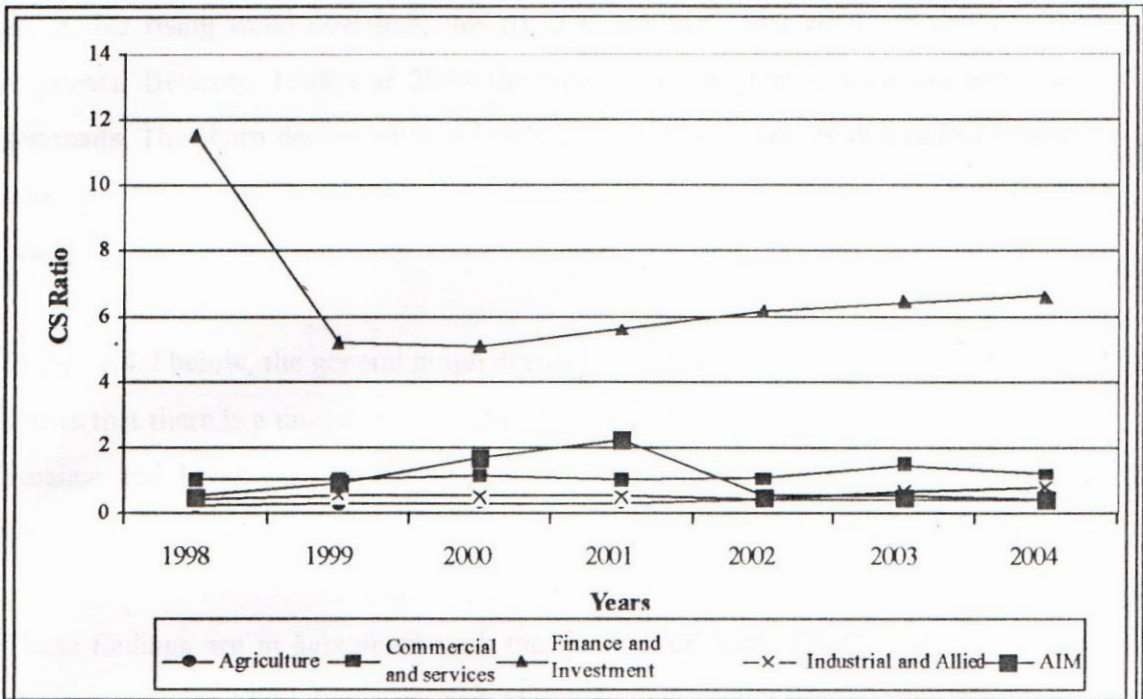
Fig 4.1: Comparison of the capital structures
Source: Own Analysis, 2006

From the figure above all the counters except Financial and Investment have a very close pattern on their capital structure ratios. The range is between 0.2109 for Agricultural counter to 2.2013 for the hybrid counter AIMS. Apart from the year 2001 the ratios for these counters are less than two. Therefore it is quite clear that there is a similar pattern in the capital structures of companies. Financial and Investment segment however stands out more differently from the other segments. Its capital structure ratios for the 7-year period are quite high. This may be attributed to the fact that the segment is of finance nature, with its entire operations being service-oriented. It is also notable that much of debts in this segment were short-term liabilities with very few companies having long-term debt. This indicates that this segment operates well with depositors' funds in form Certificates of Deposits (CDs) and fixed deposits. Still on Financial and Investment, apart from the financial year 1998/99, the other periods have a relatively consistent pattern in capital structure with

somewhat rising trend overtime; this trend is not very different from that of other segments. Between 1999 and 2004 the trend is in agreement with the other four segments. The sharp decline of debt levels in 1998/1999 could be due to low treasury bills, intense competition for market share and inflation. These arguments were predominant in most companies' annual reports.

In figure 4.2 below, the general graph drawn from values of average ratios in table 4.3 shows that there is a uniqueness of ratios between 1998/99 that is due to the effect of Finance and Investment sector as described above. The rest of the years show a consistent pattern.

These findings are in agreement with the findings of Njeru (2003), who found that seven companies of the Industrial and Allied sector from the rest of companies in that particular sector showed a significant trend in capital structure over time at a 5% level of significance; capital structure do not vary overtime. The fact that there is a significant trend of capital structure over time may be a sign that companies have developed optimum capital structures that they adopt depending on changing circumstances in their operations.

Table 4.3: Average capital structure trends from 1998 to 2004

Year	1998	1999	2000	2001	2002	2003	2004
Average capital structure ratios	2.7	1.6	1.7	1.9	1.7	1.9	1.9
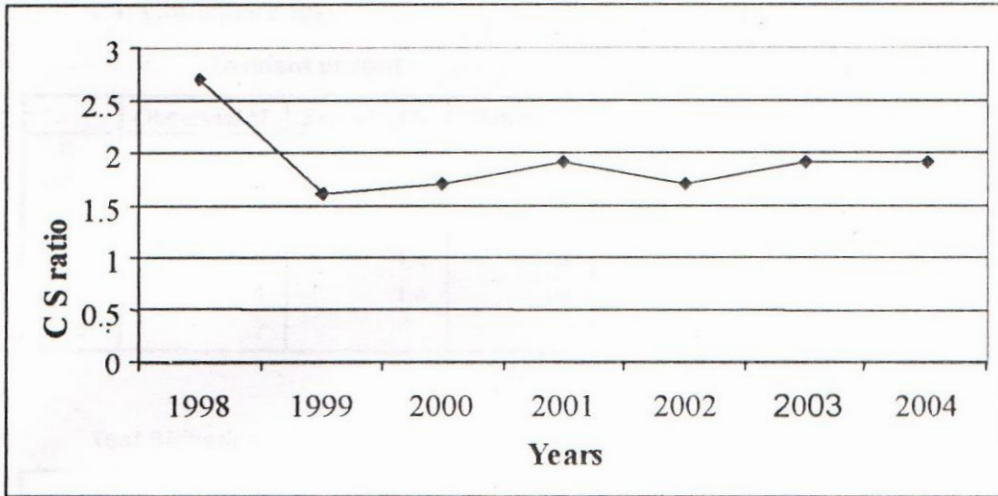
Fig. 4.2: General capital structure trend from 1998 to 2004

Source: Own Analysis, 2006

4.2.2: Hypothesis 2

Chi-square test was carried out in order to make conclusions about the hypothesis. The average values in table 4.6 were used to run the SPSS. The table below shows the results obtained.

Table 4.4: Chi-square test

Divident payout

	Observed N	Expected N	Residual
.20	1	1.4	-.4
.40	2	1.4	.6
.60	2	1.4	.6
1.30	1	1.4	-.4
1.40	1	1.4	-.4
Total	7		

Test Statistics

	Divident payout
Chi-Square[a]	.857
df	4
Asymp. Sig.	.931

a. 5 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.4.

Source: Own Analysis, 2006

The computed chi-square is 0.857 whereas the critical chi-square is 9.488 therefore the null hypothesis that there is no significant difference in dividend payout patterns by companies quoted at the NSE is confirmed. This also confirms the pattern displayed by the graphs of figures 4.3, 4.4 and 4.5 to be discussed hereafter.

Dividend payout ratios were organized into a table of averages for each category for the entire period (Table 4.5). The values were used to draw graphs that helped in comparing the dividend payout patterns for companies on the different trading segments.

Generally, dividend payout patterns were similar over the seven-year period except for Financial and Investment sector that had very high dividend payout ratios in 2003 and 2004 hitting a high of 5.008 in 2003 from 0.377 the previous year (figure 4.3). This sharp rise in dividend payout could be due to the trading optimism that came

with the policies introduced by the new government after 2002 general elections. During this period the new government had decreed a zero-tolerance to corruption in all spheres of trade and governance, which could be translated to mean favourable terms of doing business. Further to this "Liquidity in the banking sector remained high throughout 2002 as a result of few investment opportunities. Hence the interest rate on the 91 day Treasury bill remained low as this instrument was used to 'mop up' excess liquidity in the market. The T-bill averaged at 8.9% in 2002 compared to 12.7% in 2001" (NSE Handbook, 2002). It was a different situation after 2003, because there was a decline in dividend payout for all the segments except Commercial and Alternate and Allied segments. Dividend payout was lower in 2004 than it was in 2003. This decline could be due to diversified business opportunities arising due to business enabling environment created by the new government. More business opportunities encourages companies to reinvest their earnings hence reduction of dividend payout. It was around this time that corruption cases including Goldenberg scandal were addressed. All these scenarios provided enabling environment for business hence companies withheld their earnings in order to reinvest.

In addition many banks around this time engaged in product diversification and electronic solutions, which attracted broad base clientele. During the year 2002, the banking sector also experienced depressed results generally due to a combination of adverse factors including lack of economic growth, limited appetite for commercial borrowing, intense competition for market share, squeezed margins and weakening interest rates for liquid investment (NSE Handbook, 2002). All these led to declining low levels of dividend payouts. In the years 2003 and 2004 dividend payout declined for reasons which could be attributed to factors applicable to Commercial and Alternate and Allied segments explained above.

It is only the Agricultural sector that depicted wide variations in dividend payout (figure 4.3) ranging from -0.617 in 2002 to 1.183 in 1998. Performance in agriculture is entirely dependent on price swings due to glut production, international commodity prices, exchange rates, inflation and changes in international markets. For example up to the period 2002 coffee price persisted at very low levels and tea prices were weakening. Livestock prices were poor due to reduced demand from the depressed tourist industry coupled with an over-supply of low-grade slaughter animals imported from neighbouring countries (NSE Handbook, 2002). Performance in one particular period does not guarantee performance in subsequent periods. Any of these factors largely affects earnings from which dividends are paid. The reduction in dividend payout between 2001 and 2002 would probably have been due to such factors. The period prior to 2002 general elections may have caused companies to withhold their earnings as reserve funds for any election eventuality. During this period, such was the trend for all companies except Industrial and Allied sector.

Table 4.5: Comparison of dividend payout ratios

Year Company	1998	1999	2000	2001	2002	2003	2004
Agriculture	0.775	1.183	0.354	0.969	-0.617	0.157	0.155
Commercial	0.263	0.170	0.172	0.174	0.178	0.295	0.893
Financial Investment	0.351	0.393	0.372	0.477	0.377	5.008	4.315
Industrial and Allied	0.480	0.674	0.514	0.596	0.450	0.925	0.498
AIM	0.165	0.511	0.429	0.923	0.382	0.381	0.525

Source: Own Analysis, 2006
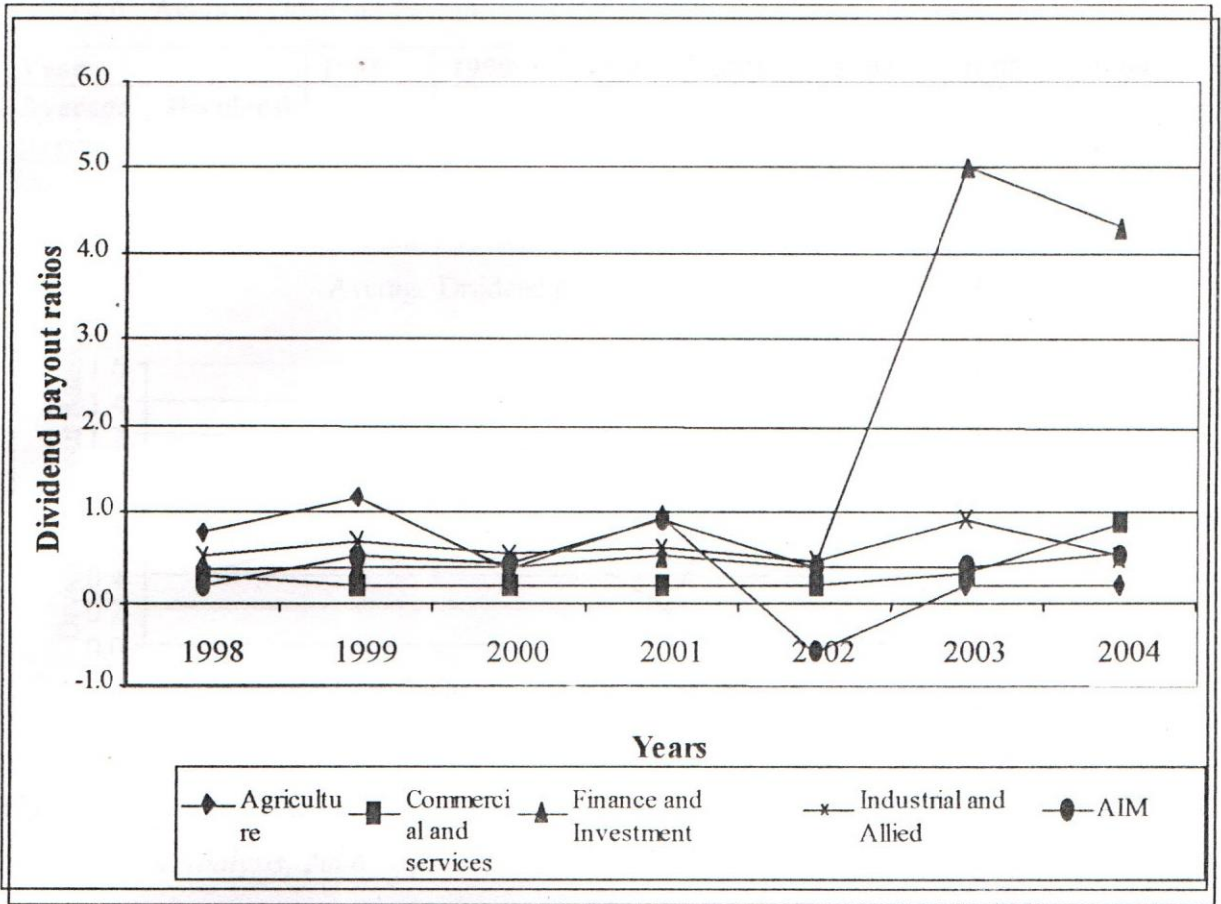
Fig. 4.3: Comparison of dividend payout patterns
Source: Own Analysis, 2006

Below is a table of values showing the average dividend payout ratios for the entire period. Fig 4.4 is drawn using these values. A consistent pattern is noticeable between 1998 and 2002 with ratios ranging from 0.6 in 1999 to 0.2 in 2002. The sudden rise in the graph from 0.2 in 2002 to 1.4 in 2003 is due to the effect of Financial and Investment sector explained above.

Table 4.6: Average Dividend Payout ratios

Year	1998	1999	2000	2001	2002	2003	2004
Average Dividend payout ratios	0.400	0.600	0.400	0.600	0.200	1.400	1.300

Source: Own Analysis, 2006
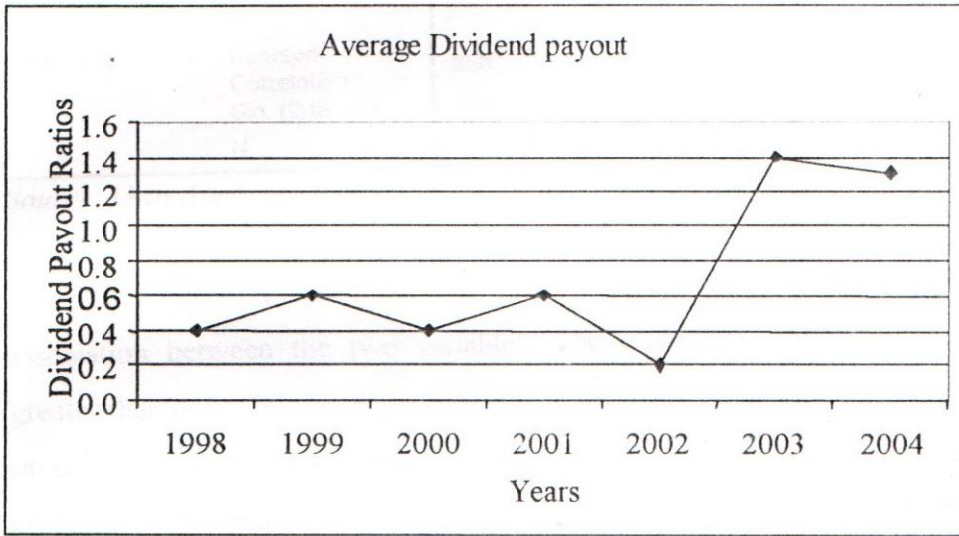
Fig. 4.4: Average Dividend payout

Source: Own Analysis, 2006

4.2.3: Hypothesis 3

A correlation analysis was run to establish the relationship between capital structure and dividend payout. Pearson's Correlation coefficient (r) (Table 4.7) was used to determine the relationship between capital structure and dividend payout. This was done to measure the strength of association between the two variables-Capital Structure and Dividend Payout.

Table 4.7: Correlation between the capital structure and dividend payout

Correlations

		Payout ratio	Debt ratio
Payout ratio	Pearson Correlation	1	.656
	Sig. (2-tailed)	-	.109
	N	7	7
Debt ratio	Pearson Correlation	.656	1
	Sig. (2-tailed)	.109	-
	N	7	7

Source: Own Analysis, 2006

The test's outcome indicated that r>0 which means that there was a positive association between the two variables. The calculated r=0.656 was significantly greater than one. This

ratio is significantly large enough to draw meaningful conclusion. The hypothesis of no relationship between capital structure and dividend payouts for companies quoted at the NSE is therefore rejected since the r-value is equal to 0.656. There is a positive significant relationship between capital structure and dividend payouts for companies quoted at the NSE.

This means that debt financing definitely has positive effect on companies' performance. It is worth noting however that this ratio may reduce to even a smaller value if a company would employ very high level of debt to finance its operations, thus indicating a weak relationship. In fact, a ratio of 0.7 is considered a strong relationship conventionally and the value 0.656 is therefore not a strong but significant. This positive relationship means that companies that source their funds from debt to add to equity funds are able to pay dividends for what they can do with these extra funds. The importance of debt can be illustrated by the Directors' decision of Kakuzi Ltd in the AGM of 2002 (NSE Handbook, 2002), in which they recommend non-payment of dividends because they believed that the company must

strive to reduce borrowings.

The values in table 4.8 below were used to draw graphs in figure 4.5. From the figure the relationship between capital structure and dividend payout is visibly evident especially between 1999 and 2002. The noticeable variation in capital structure (1998 to 1999) and in dividend payout (2002 to 2004) emanates from Financial and Investment segment that has been explained earlier.

Table 4.8: Comparison of capital structure and dividend payout ratios

Year	Payout ratio	Debt ratio
1998	0.1967	1.1138
1999	0.5498	1.7514
2000	0.4012	1.8629
2001	0.5966	2.0554
2002	0.2868	1.9076
2003	1.6294	2.1225
2004	1.42865	2.1224
Average	0.7270	1.8480

Source: Own Analysis, 2006
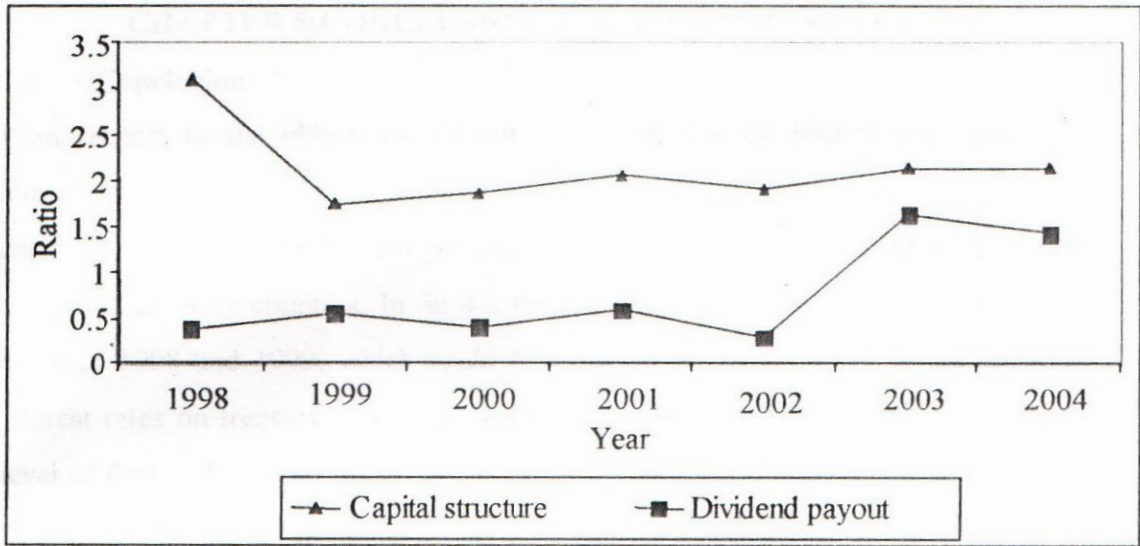
Fig 4.5: Comparison of Capital structure and dividend payout pattern between 1998 and 2004

Source: Own Analysis, 2006

4.3 Scope and Limitations of the study

The study covers the period from the year 1998 to 2004. This is the most recent consolidated data that could be obtained at the time of study for the 7-year period. The findings were expected to reflect the true position of all the quoted companies because a time period of 7 years is sufficiently long enough. Quoted companies were chosen because data was relatively easy to access compared to unquoted companies. The study looks at a sample of 34 quoted companies. This sample size was taken because it is a reasonable size representing 70.83% of the population. Any bigger sample size could not be taken and unquoted companies could not be studied due to costs and limited time available for the study.

CHAPTER 5:CONCLUSION AND RECOMMENDATIONS

5.1   Conclusion

With respect to the objectives set out, this study has established that companies quoted at NSE generally maintain similar capital structure patterns for all the categories. Finance and Investment sector however operates at higher level of debt compared to other counters. In fig 4.2 the general pattern is interrupted in the years between 1998 and 1999, which could have been due to government's reduction of interest rates on treasury bills. The average debt ratio was at 1.8480. At reasonable level of debt (CMAs recommendation not more than 1:400) a company is able to be well levered for better gain due to adequate funds at its disposal. From this outcome none of the quoted companies are heavily indebted. Problems bedeviling some of the companies can be interpreted as being caused by mismanagement of borrowed funds.

The overall trend is that the capital structure has a tendency to increase overtime. This shows that most companies tend to borrow more relative to their equity over the years. This could be attributed to the fact that companies do not often reissue shares after initial public offering (IPO). Furthermore, it is relatively cheaper to manage debt than equity due to its non- permanence nature.

Secondly, the study found out that quoted companies generally maintain a similar dividend payout patterns in all the categories. A small difference was however seen in Agriculture and Finance and Investment sectors where swings in dividend payouts were noticeable that affected the general pattern in figure 4.4 between 2002 and 2004. This change could have arisen due to reasons explained earlier touching on new government promises and the stand it took on business sector.

Thirdly, the conclusion from the study is that there is a significant relationship between capital structure and dividend payout. Companies that optimally engage financial leverage in their operations stand a chance of favourabe competitive situations because of the absence of financial inhibitions. Availability of funds enables

companies to meet their financial obligations. Debt financing also is cheaper to service since it is offered within specified time frames. Therefore, companies stand a chance of experiencing high earnings from which to pay dividends.

5.2   Recommendation

From the findings of this study it is highly recommended that companies maximize their output by engaging in optimal debt financing because there is a positive correlation between dividend payout and capital structure. That is, as companies engage more and more debt towards optimal levels, the more it is likely to experience higher earnings.

Secondly, listed companies could in future categorize themselves into those that would pay dividends and those that would not pay dividends in order for each to attract its kind of clientele. This would be useful, as it would make it clear to investors about the type of companies to invest in.

5.2.1   Recommendation for further study

A study on the kind of investors at the NSE is recommended in order to find out the extend to which investors expect to be paid dividends as soon as it is released (bird-in-the-hand theory) and those that prefer to earn capital gains (tax preference theory).

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APPENDICES

Appendix i: Company Codes

Company Code	Company Name
AA	Unilever Tea Kenya Ltd
AB	Kakuzi Ltd
AC	Sasini Tea and Coffee Ltd
AD	Car and General
AE	Marshals (East Africa) Ltd
AF	CMC Holdings Ltd
AG	Tourism Promotion Services Limited
AH	Nation Media Group Ltd
AI	Uchumi Supermarkets Ltd
AJ	Barclays Bank Ltd
AK	Diamond Trust Bank Ltd
AL	Kenya Commercial Bank Ltd
AM	CFC Bank Ltd
AN	Housing Finance Co. Ltd
AO	Jubilee Insurance Co. Ltd
AP	National Bank of Kenya Ltd
AQ	Pan African Insurance Co. Ltd
AR	Athi River Mining
AS	B.O.C. Kenya Ltd
AT	Bamburi Cement Company Ltd
AU	British American Tobacco Kenya Ltd
AV	Kenya Oil Company Ltd
AW	East African Breweries Ltd
AX	Carbacid Investments Ltd
AY	East African Cables Ltd
AZ	East African Portland Cement
BA	Sameer Africa Ltd
BB	Unga Group Ltd
BC	Baumann& company Ltd

BD	Eaagads Ltd
BE	City Trust Ltd
BF	Williamson Tea Kenya Ltd
BG	Kapchorua Tea Company Ltd
BH	Standard Newspapers Group Ltd

Appendix ii: Dividend payout per category of companies quoted at NSE

1 Agriculture

Company	1998	1999	2000	2001	2002	2003	2004
AA	0.8511	0.9081	0.6531	0.4378	0.8870	0.4711	0.10833
AB	0.5378	1.068	-0.2773	0.0000	0.0000	0.0000	0.2341
AC	0.9369	1.5735	0.6863	2.4697	-2.7384	0.0000	0.1232
Average	0.775267	1.1832	0.354033	0.969167	-0.61713	0.157017	0.15521

2 Commercial and Services

Company	1998	1999	2000	2001	2002	2003	2004
AD	0.000	0	0	0	0	0.246	0.4085
AE	0.3836	0	0	0	0	0	0
AF	0.0782	0.1135	0.1485	0.2096	0.1589	0.1372	0.1847
AG	0.6743	0.4875	0.4018	0.44	0.4018	0.65	3.37
AH	0.1802	0.2498	0.3072	0.2222	0.3311	0.4436	0.5003
Average	0.26326	0.17016	0.1715	0.17436	0.17836	0.29536	0.8927

3 Finance and Investment

Company	1998	1999	2000	2001	2002	2003	2004
AI	0.643	0.7488	0.5624	1.0763	0.6041	0	0
AJ	0.5658	0.6846	0.8946	0.8773	0.9338	0.8471	0.7721
AK	0.3079	0.6102	0.2916	0.7769	0.6316	0.4996	0.4242
AL	0.5977	0	0	0	0	0.3081	0.5072
AM	0.2801	0.4247	0.4152	0.5686	0.4629	0.3367	0.2793
AN	0.006	0.0081	0.0084	0	0	0	0
AO	0.4379	0.6682	0.8066	0.52	0.3831	38.07	32.54
AP	-0.0342	0	0	0	0	0	0
Average	0.3505	0.3931	0.3724	0.4774	0.3769	5.0077	4.3154

4 Industrial and Allied

Company	1998	1999	2000	2001	2002	2003	2004
AQ	0.07	0.07	0	0	0	0	0.5117
AR	0	0	0	0.5058	0.6482	0.4789	0
AS	0.4467	0.6179	0.9277	0.9236	0.8051	0.5565	0.5487
AT	0.4777	0.5747	0.9419	0.5561	1.0345	0.9525	1.293
AU	0.5008	0.6364	1.3557	1.3077	1.0934	1.0965	1.3634
AV	0.2335	0.2558	0.3962	0.2016	0.2169	0.2258	0.2404
AW	2.6447	0.6091	0.5809	0.6048	0.5405	1.0903	0.5136
AX	0.2568	0.4348	0.2815	0.6923	0.4667	2.957	0.5008
AY	0.6359	4.1707	0.7329	1.3978	-1.7028	2.1623	0.5731
AZ	0.2395	0	0	0.1222	1.096	0.6965	-0.5851
BA	0.3443	0.7132	0.9513	0.8344	1.2028	0.8853	1.0115
BB	-0.0867	0	0	0	0	0	0
Average	**0.480267**	**0.67355**	**0.514008**	**0.595525**	**0.450108**	**0.925133**	**0.497592**

5 Alternative Investment Market Segment (AIM)

Company	1998	1999	2000	2001	2002	2003	2004
BC	-0.2488	0.3786	0.8926	-1.4872	0	0	0
BD	0.6267	1.0969	0	4.2446	1.0411	0	0
BE	0.1693	0.5822	0.7452	0.8978	1.5571	1.3569	2.3632
BF	0.0472	0.3729	0.2798	0.3214	-0.1626	0.5102	0.4083
BG	0.3934	0.6342	0.6578	1.5628	-0.1414	0.4214	0.3796
BH	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Average	**0.1646**	**0.5108**	**0.4292**	**0.9232**	**0.3824**	**0.3814**	**0.5252**

Appendix iii: Data Collection Sheet –Analysis by Time (Year)

1998

Sheet No. 2A

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷ Total No. of shares	Payout Ratio = Div / EPS	Debt Ratio=Debt / Assets
AA	48,875,000	141.00	784,894	488,750	4.70	0.8511	0.1467
AB	19,599,992	141.00	848,079	98,000	5.11	0.5378	0.3412
AC	38,009,250	78.00	341,656	190,046	3.20	0.9369	0.1447
AD	22,279,616	12.00	363,665	111,398	-1.52	0	1.0632
AE	14,393,106	42.00	1,208,431	72,466	2.61	0.3836	0.9782
AF	24,279,560	36.00	2,746,844	121,398	6.39	0.0782	1.8827
AG	38,679,000	14.50	443,518	193,395	1.48	0.6743	0.6918
AH	35,652,630	137.00	662,600	178,300	9.16	0.1802	0.3708
AI	60,000,000	46.00	1,121,826	300,000	5.21	0.6430	1.5203
AJ	154,305,000	130.00	62,193,000	1,543,000	19.40	0.5658	7.6133
AK	79,500,000	22.00	5,487,464	318,000	2.60	0.3079	5.7836
AL	112,200,000	61.50	68,677,335	1,122,000	10.04	0.5977	6.6317
AM	100,000,000	15.1	5,11,242	500,000	2.39	0.2801	0.2849
AN	115,000,000	16.05	11,287,037	575,000	2.48	0.006	7.3093
AO	36,000,000	30	1,131,948	180,000	4	0.4379	0.2911
AP	200,000,000	8.6	25,355,992	1,000,000	-14	-0.0342	62.3537
AQ	48,000,000	25	944,792	240,000	5.65	0.07	0.5600
AR	75,000,000	6.60	578,382	375,000	0.10	0.0000	0.7243
AS	19,525,446	70.00	242,758	97,627	7.81	0.4467	0.2333
AT	362,931,725	36.00	1,015,000	1,815,000	1.57	0.4777	0.0962
AU	75,000,000	76.50	2,079,887	750,000	14.98	0.5008	0.4742
AV	7,199,800	58.50	111,056	36,000	23.67	0.2335	0.1141
AW	81,901,971	53	4,690,044	936,022	2.27	2.6447	0.4492
AX	9,438,963	65	32,491	47,195	8.57	0.2568	0.0597
AY	20,250,000	20.00	79,431	101,250	3.14	0.6359	0.2274
AZ	90,000,000	23.50	4,090,415	450,000	4.17	0.2395	0.7800
BA	278,342,400	16.1	778,216	1,391,712	2.20	0.3443	0.4140

BB	46,858,758	56.50	2,921,382	234,294	-13.84	-0.0867	0.9618
BC	3,840,066	40.50	119,653	19,200	0.97	-0.2488	0.2587
BD	6,431,400	37.00	48,222	8,039	7.58	0.6267	0.2619
BE	4,166,046	25.5	24,644	20,830	11.81	0.1693	0.1185
BF	8,756,320	136.00	446,068	43,782	31.79	0.0472	0.3491
BG	3,912,000	81.00	150,394	19,560	19.06	0.3934	0.3851
BH	12,811,859	12.00	356,567	64,152	0.43	0	1.8425

1999

Sheet No. 2B

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷Total No. of shares	Payout Ratio = Div / EPS	Debt Ratio=Debt / Assets
AA	48,875,000	104.00	2,125,677	488,750	4.40	0.9081	0.3979
AB	19,599,999	87.00	1,071,530	98,000	1.87	1.0680	0.3861
AC	38,009,250	55.50	257,977	190,046	0.32	1.5735	0.1102
AD	22,279,616	10.00	330,588	111,398	0.66	0	0.2031
AE	14,393,106	26.00	1,004,499	72,466	-14.67	0	2.4359
AF	24,279,560	30.00	2,919,091	121,398	6.61	0.1135	1.2954
AG	38,679,000	16.05	663150	193,395	2.05	0.4875	0.5511
AH	35,652,630	100.00	917,200	178,300	7.01	0.2498	0.5004
AI	60,000,000	48.00	1,032,134	300,000	4.07	0.7488	1.2934
AJ	154,305,000	103.00	60,554,000	1,543,000	14.60	0.6846	6.9300
AK	79,500,000	26.00	4,858,085	318,000	1.31	0.6102	4.2699
AL	112,200,000	31.50	66,419,134	1,122,000	-13.86	0.0000	7.5124
AM	120,000,000	14.25	5,613,095	500,000	1.58	0.4247	2.8160
AN	115,000,000	10.55	11,502,466	575,000	0.61	0.0081	7.3796
AO	36,000,000	25.75	1,339,958	180,000	2.62	0.6682	0.3377
AP	200,000,000	5	22,996,530	1,000,000	-12.14	0	10.8629
AQ	48,000,000	25	944,792	240,000	5.65	0.07	0.4996
AR	75,000,000	5.75	611,349	375,000	0.27	0.0000	0.7614
AS	19,525,446	70.00	277,522	97,627	5.75	0.6179	0.2716
AT	362,940,725	26.25	4,377,000	1,815,000	1.74	0.5747	0.3573
AU	75,000,000	77.50	2,172,797	750,000	16.50	0.6364	0.3754

AV	7,199,800	57.50	740.553	36.000	29.32	0.2558	0.6515
AW	93,602,252	78	6.695.315	936.022	11.49	0.6091	0.7388
AX	9,438,963	72	71.208	47.195	11.50	0.4348	0.1176
AY	20,250,000	13.00	126.078	101.250	1.08	4.1707	0.4519
AZ	90,000,000	14.00	5.211.057	450.000	-9.76	0	0.9800
BA	278,342,400	16.00	1.042.104	1.391.712	1.40	0.7132	0.5160
BB	46,858,758	32.25	2.786.739	234.294	-4.45	0	1.0149
BC	3,840,066	17.15	208.411	19.200	3.30	0.3786	0.4727
BD	6,431,400	42.25	31.845	8.039	1.14	1.0969	0.1736
BE	4,166,046	23.5	24.598	20.830	3.44	0.5822	0.1183
BF	8,756,320	140.00	299.783	43.782	6.70	0.3729	0.1513
BG	3,912,000	125.00	53.505	19.560	3.94	0.6342	0.1019
BH	12,811,859	16.05	603.103	64.152	-9.41	0	4.5103

2000

Sheet No. 2C

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders : Total No. of shares	Payout Ratio $= \frac{Div}{EPS}$	Debt Ratio=$\frac{Debt}{Assets}$
AA	48,875,000	97.00	2.161.989	488.750	9.19	0.6531	0.3739
AB	19,599,999	55.00	1.177.739	98.000	-1.44	-0.2773	0.4451
AC	38,009,250	34.75	284.385	190.046	2.91	0.6863	0.1210
AD	22,279,616	19.00	327.788	111.398	-0.19	0	0.7907
AE	14,393,106	23.50	938.554	72.466	-7.24	0	2.7292
AF	24,279,560	16.00	2.637.861	121.398	5.05	0.1485	1.0741
AG	38,679,000	19.00	1.101.662	193.395	2.74	0.4018	0.7329
AH	35,652,630	69.00	1.011.100	178.300	5.70	0.3072	0.4531
AI	60,000,000	42.75	1.325.368	300.000	5.33	0.5624	1.4129
AJ	185,000,000	75.50	60.034.000	1.852.000	11.20	0.8946	5.8043
AK	79,500,000	14.00	3.898.173	318.000	2.06	0.2916	3.0657
AL	112,200,000	25.50	65.280.075	1.122.000	-4.14	0.0000	8.1109
AM	120,000,000	10.05	7.770.427	600.000	1.61	0.4152	3.6249
AN	115,000,000	5.5	11.664.685	575.000	0.45	0.0084	7.9377

AO	36,000,000	18.5	1,372.568	180,000	2.17	0.8066	0.3555
AP	200,000,000	3.15	21,783.805	1,000,000	-11.03	0	10.1038
AQ	48,000,000	11	1,457.529	240,000	-1.36	0.0000	0.6030
AR	75,000,000	4.00	532.902	375,000	0.40	0.0000	0.5458
AS	19,525,446	43.00	256.875	97.627	3.83	0.9277	0.2498
AT	362,959,925	34.00	4,698.000	1,815.000	0.8	0.9419	0.3835
AU	100,000,000	60.50	2,832.978	1,000,000	5.83	1.3557	0.5793
AV	10,079,612	81.00	797.557	36.000	15.15	0.3962	0.5962
AW	95,574,902	65.5	4,683.984	974.022	12.91	0.5809	0.4553
AX	9,438,963	49	105.053	47.195	9.77	0.2815	0.1594
AY	20,250,000	9.25	55.723	101.250	1.50	0.7329	0.1808
AZ	90,000,000	12.40	6,457.852	450,000	-4.66	0	0.8870
BA	278,242,393	11.50	919.119	1,391.712	1.05	0.9513	0.4274
BB	46,858,758	15.40	2,292.623	234.294	-14.57	0	0.9853
BC	3,840,066	14.30	73.387	19.200	1.12	0.8926	0.1615
BD	6,431,400	25.00	49.790	8.039	-1.33	0.00	0.2690
BE	4,166,046	20	6.412	20.830	2.68	0.7452	0.0310
BF	8,756,320	87.00	779.993	43.782	8.93	0.2798	0.3853
BG	3,912,000	150.00	191.104	19.560	3.80	0.6578	0.3497
BH	12,811,859	7.40	707.228	64.161	-7.33	0	8.9525

2001

Sheet No. 2D

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷Total No. of shares	Payout Ratio = Div / EPS	Debt Ratio=Debt / Assets
AA	48,875,000	72.00	2,069.160	488.750	4.57	0.4378	0.3703
AB	19,599,999	36.00	1,123.776	98,000	-2.31	0.0000	0.4908
AC	38,009,250	19.80	217.933	190.046	0.40	2.4697	0.1129
AD	22,279,616	10.00	305.424	111.398	-0.26	0	0.8958
AE	14,393,106	18.30	904.028	72.466	-21.45	0	2.2868
AF	24,279,560	9.00	2,058.062	121.398	3.58	0.2096	0.8683
AG	38,679,000	17.00	1,069.799	193.395	2.50	0.4400	0.7715
AH	35,652,630	43.25	816.700	178.300	7.20	0.2222	0.3797

AI	60,000,000	45.50	1,010,580	300,000	1.49	1.0763	1.0775
AJ	185,166,000	72.50	62,247,000	1,852,000	16.00	0.8773	5.4603
AK	79,500,000	9.00	4,280,250	318,000	0.51	0.7769	3.4647
AL	149,600,000	16.35	56,826,404	1,496,000	1.31	0.0000	6.9660
AM	120,000,000	9.00	8,180,199	600,000	1.18	0.5686	3.6647
AN	115,000,000	6	10,729,052	575,000	-1.62	0.0000	10.8878
AO	36,000,000	15.5	1,494,799	180,000	3.37	0.52	0.3951
AP	200,000,000	2.9	21,586,231	1,000,000	1.49	0	12.5601
AQ	48,000,000	13.1	1,070,413	240,000	3.41	0.0000	0.6682
AR	85,500,000	4.00	527,481	465,000	0.40	0.5058	0.5372
AS	19,525,446	30.00	311,980	97,627	3.84	0.9236	0.3030
AT	362,959,025	16.70	4,511,000	1,815,000	2.01	0.5561	0.3345
AU	100,000,000	49.00	2,530,801	1,000,000	6.04	1.3077	0.5416
AV	10,079,612	68.50	1,782,218	50,398	37.21	0.2016	0.8974
AW	105,733,961	79.5	5,005,372	1,090,305	14.88	0.6048	0.4403
AX	11,326,755	35	97,069	56,634	3.97	0.6923	0.1350
AY	20,250,000	9.20	53,879	101,250	0.79	1.3978	0.1814
AZ	90,000,000	11.00	5,570,473	450,000	8.18	0.1222	0.8323
BA	278,342,400	7.00	769,842	1,391,712	1.20	0.8344	0.3504
BB	52,954,468	7.75	1,730,976	264,772	-2.20	0	0.8023
BC	3,840,066	6.95	48,021	19,200	-0.67	-1.4872	0.1092
BD	8,039,250	20.50	41,675	10,049	0.12	4.2446	0.2151
BE	4,166,046	16.2	5,471	20,830	2.23	0.8978	0.0265
BF	8,756,320	100.00	715,314	43,782	15.56	0.3214	0.3278
BG	3,912,000	140.00	213,229	19,560	1.60	1.5628	0.3788
BH	12,811,859	5.50	780,807	64,161	4.90	0	12.1506

2002

Sheet No. 2E

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷Total No. of shares	Payout Ratio = Div / EPS	Debt Ratio=Debt / Assets
AA	48,875,000	54.00	2,086,554	488,750	2.82	0.8870	0.4734

AB	19,599,999	14.65	1,026.570	98,000	0.39	0.0000	0.5917
AC	38,009,250	13.20	373,995	190,046	-0.18	-2.7384	0.1908
AD	22,279,616	10.00	278,303	111,398	0.33	0	0.8095
AE	14,393,106	18.30	854,221	72,466	2.03	0	2.4198
AF	24,279,560	17.25	2,258.759	121,398	6.29	0.1589	0.9164
AG	38,679,000	19.00	1,101,662	193,395	2.74	0.4018	0.7803
AH	53,478,945	84.00	1,281,800	267,500	7.55	0.3311	0.5359
AI	60,000,000	16.60	1,612,396	300,000	0.83	0.6041	1.7291
AJ	185,000,000	101.00	75,925,000	1,852,000	9.60	0.9338	7.6009
AK	79,500,000	10.00	5,004391	318,000	0.95	0.6316	3.9424
AL	149,600,000	17.00	54,487,414	1,496,000	-20.06	0.0000	10.3442
AM	120,000,000	9.20	9,468.827	600,000	1.45	0.4629	3.9830
AN	115,000,000	5.2	9,420.530	575,000	0.49	0.0000	9.1936
AO	36,000,000	15.5	1,827.590	180,000	4.57	0.3831	0.4125
AP	200,000,000	3.65	23,313.591	1,000,000	0.99	0	12.1590
AQ	48,000,000	7.00	1,080,443	240,000	-0.33	0.0000	0.6453
AR	93,000,000	4.70	552.352	465,000	0.62	0.6482	0.5313
AS	19,525,446	26.75	270,185	97,627	5.40	0.8051	0.2572
AT	362,959,025	43.75	4,688,000	1,815,000	3.38	1.0345	0.3649
AU	100,000,000	54.00	2,202.986	1,000,000	8.23	1.0934	0.4653
AV	10,079,612	81.00	2,160.796	50,398	43.80	0.2169	0.8851
AW	109,030,506	82.5	6,852.543	1,090,305	21.27	0.5405	0.5558
AX	11,326,755	35.75	96,080	56,634	4.93	0.4667	0.1288
AY	20,250,000	9.20	84,522	101,250	-0.29	-1.7028	0.0691
AZ	90,000,000	12.50	5,517.542	450,000	1.37	1.0960	0.8142
BA	278,342,400	8.70	559,251	1,391,712	0.83	1.2028	0.2600
BB	52,954,468	4.10	1,112,419	264,772	-1.07	0	0.5577
BC	3,840,066	9.00	61,019	19,200	-12.52	0	0.1576
BD	8,039,250	19.00	44,105	10,049	0.48	1.0411	0.2268
BE	4,166,046	17.5	6,212	20,830	1.28	1.5571	0.0305
BF	8,756,320	51.00	683,515	43,782	-3.07	-0.1626	0.3235
BG	3,912,000	137.00	205,833	19,560	-3.54	-0.1414	0.0389
BH	65,133,359	9.40	587,726	325,769	-0.94	0	2.4638

2003

Sheet No. 2F

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷Total No. of shares	Payout Ratio = Div / EPS	Debt Ratio=Debt / Assets
AA	48,875,000	66.00	1.691.554	488.750	51.82	0.47105	0.4022
AB	19,599,999	14.65	1.147.713	98.000	-0.60	0.0000	0.6840
AC	38,009,250	17.30	485.752	190.046	-1.77	0	0.1740
AD	22,279,616	68.00	207.811	111.398	2.72	0.2460	0.5506
AE	14,393,106	6.05	768.170	71.966	1.53	0	3.7863
AF	24,279,560	68.00	2.901.254	121.398	7.29	0.1372	1.0830
AG	38,679,000	27.25	997.012	1.390.553	193.395	0.65	1.6967
AH	53,478,945	191.00	1.167.700	267.500	11.27	0.4436	0.4195
AI	60,000,000	31.75	2.734.920	300.000	-3.28	0.0000	3.8968
AJ	203,716,600	280.00	85.633.000	2.037.000	16.5	0.8471	7.7693
AK	99,375,000	28.00	7.334.977	397.500	1.40	0.4996	5.4365
AL	149,600,000	54.00	54.771.404	1.496.000	3.25	0.3081	9.7565
AM	120,000,000	33.00	13.291.498	600.000	2.49	0.3367	4.2345
AN	115,000,000	12.05	9.704.583	575.000	0.45	0.0000	9.1557
AO	36,000,000	50.00	2.139.078	180.000	5.91	38.07	0.3852
AP	200,000,000	13.35	23.765.060	6.175.000	2.02	0	11.0325
AQ	48,000,000	23.5	2.138.054	240.000	-0.49	0.0000	3.5375
AR	93,000,000	21.25	611.293	465.000	1.04	0.4789	0.4799
AS	19,525,446	99.50	270.023	97.627	7.82	0.5565	0.2401
AT	362,959,025	126.00	3.870.000	1.815.000	2.94	0.9525	0.2786
AU	100,000,000	276.00	2.155.238	1.000.000	11.40	1.0965	0.4483
AV	10,079,612	272.00	2.188.651	50.398	5.85	0.2258	0.8312
AW	109,030,506	226.00	4.706.515	1.090.305	13.76	1.0903	0.3398
AX	11,326,755	105.00	109.177	56.634	7.81	2.9570	0.1979
AY	20,250,000	13.65	106.892	101.250	0.46	2.1623	0.3932
AZ	90,000,000	46.25	5.316.281	450.000	2.51	0.6965	0.8142
BA	278,342,400	11.90	573.252	1.391.712	0.56	0.8853	0.2833
BB	63,090,728	12.05	1.488.386	315.454	-0.43	0	0.6419

BC	3,840,066	5.50	111.295	19.200	-0.63	0	0.3582
BD	8,039,250	15.95	25.741	10.049	-0.53	0	0.1770
BE	4,166,046	21.00	36.685	20.830	1.66	1.3569	0.1817
BF	8,756,320	70.00	893.333	43.782	7.35	0.5102	0.2969
BG	3,912,000	137.00	308.157	19.560	8.90	0.4214	0.3423
BH	65,133,359	39.75	517.539	325.769	-0.76	0	1.8594

2004

Sheet No. 2G

Company Code	No. of Shares in Issue	Share price at year end	Total Liability (Debt) (Ksh'000')	Total Equity (Equity) (Ksh'000')	EPS (Ksh) EPS=Earnings attributable to shareholders÷Total No. of shares	Payout Ratio $= \dfrac{Div}{EPS}$	Debt Ratio=$\dfrac{Debt}{Assets}$
AA	48,875,000	90.50	2.043.129	488.750	12.25	0.10833	0.4807
AB	19,599,999	40.00	1.055.029	98.000	4.27	0.2341	0.5949
AC	38,009,250	20.50	812.259	190.046	20.29	0.1232	0.2139
AD	22,279,616	15.00	343.837	111.398	1.64	0.4085	0.8045
AE	14,393,106	17.50	733.483	71.966	1.55	0	3.2580
AF	48,559,120	55.00	3.568.440	242.796	5.42	0.1847	1.1208
AG	38,679,000	47.25	962.880	1.420.153	193.395	3.37	0.3260
AH	53,478,945	170.00	1.192.500	267.500	11.99	0.5003	0.4159
AI	60,000,000	17.5	3.155.132	300.000	-11.65	0.0000	5.9950
AJ	203,716,600	200.00	93.720.000	2.037.000	18.1	0.7721	7.5126
AK	99,375,000	28.00	9.730.651	397.500	1.65	0.4242	6.7712
AL	199,600,000	64.00	61.020.008	1.996.000	3.94	0.5072	7.1118
AM	144,000,000	58.00	24.004.079	720.000	3.01	0.2793	4.1305
AN	115,000,000	8.50	8.340.706	575.000	0.52	0.0000	7.4476
AO	36,000,000	58.00	7.384.270	180.000	7.68	32.54	3.1562
AP	200,000,000	18.90	27.968.826	6.675.000	1.91	0	10.6556
AQ	48,000,000	21.00	2.554.476	240.000	1.95	0.5117	3.1965
AR	93,000,000	15.00	986.764	465.000	1.26	0.0000	0.7195
AS	19,525,446	137.00	312.927	97.627	8.20	0.5487	0.2609
AT	362,959,275	95.00	4.326.000	1.815.000	4.73	1.2930	0.3371
AU	100,000,000	200.00	2.360.862	1.000.000	12.10	1.3634	0.5404

AV	100,796,120	50.5	2,841,871	50,398	6.07	0.2404	0.7719
AW	109,829,772	445.00	5,511,917	1,098,297	35.05	0.5136	0.3268
AX	11,326,755	116.00	186,756	56,634	7.99	0.5008	0.2063
AY	20,250,000	51.00	175,174	101,250	6.11	0.5731	0.5188
AZ	90,000,000	47.5	5,667,834	450,000	-2.99	-0.5851	0.8867
BA	278,342,400	12.50	974,154	1,391,712	0.99	1.0115	0.4582
BB	63,090,728	14.50	2,254,953	315,454	-1.62	0	1.0554
BC	3,840,066	8.25	121,309	19,200	-2.75	0	0.2587
BD	8,039,250	17.00	34,377	10,049	-0.18	0	0.1848
BE	4,166,046	30.00	38,177	20,830	2.64	2.3632	0.1875
BF	8,756,320	80.00	878,680	43,782	9.18	0.4083	0.2873
BG	3,912,000	100.00	320,388	19,560	9.88	0.3796	0.3471
BH	65,133,359	43.50	686,117	325,769	1.19	0	1.6226

Appendix v: Companies Quoted At Nairobi Stock Exchange

Main Investment Market Segment (MIMs)
Agricultural
Brooke Bond Ltd Ord. 10.00
Kakuzi Ltd. Ord. 5.00
Rea Vipingo Plantations Ltd. Ord. 5.00
Sasini Tea and Coffee Ltd. Ord. 5.00

Commercial and Services
Car and General (K) Ltd. Ord. 5.00
CMC Holdings Ltd. Ord. 5.00
Hutchings Biemer Ltd. Ord. 5.00
Kenya Airways Ltd. Ord. 5.00
Marshalls (E.A) Ltd. Ord. 5.00
Nation Media Group Ord. 5.00
Tourism Promotion Services Ltd. Ord. 5.00 (Serena)
Uchumi Supermarket Ltd. Ord. 5.00

Finance and Investment
Barclays Bank Ltd. Ord. 10.00
C.F.C Bank Ltd. Ord. 5.00
Diamond Trust Bank Kenya Ltd. Ord. 4.00
Housing Finance Co. Ltd. Ord. 5.00

I.C.D.C Investments Co. Ltd. Ord. 5.00
Jubilee Insurance Co. Ltd. Ord. 5.00
Kenya Commercial Bank Ltd. Ord. 10.00
National Bank of Kenya Ltd. Ord. 5.00
NIC Bank Ltd. Ord. 5.00
Pan African Insurance Ltd. Ord. 5.00
Standard Chartered Bank Ltd. Ord. 5.00

Industrial and Allied
Athi River Mining Ord. 5.00
B.O.C Kenya Ltd. Ord. 5.00
Bamburi Cement Ltd. Ord. 5.00
British American Tobacco Kenya Ltd. Ord. 5.00
Carbacid Investments Ltd. Ord. 5.00
Crown Berger Ltd. Ord. 5.00
Dunlop Kenya Ord. 5.00
E.A Cables Ltd. Ord. 5.00
E.A Portland Cement Ltd. Ord. 5.00
East African Breweries Ltd. Ord. 10.00
Firestone East Africa Ltd. Ord. 5.00
Kenya Oil Company Ltd. Ord. 5.00
Mumias Sugar Company Ltd. Ord. 2.00
Kenya Power and Lighting Ltd. Ord. 5.00
Unga Group Ltd. Ord. 5.00
Total Kenya Ltd. Ord. 5.00

Alternative Investment Market Segment
A. Baumann and Company Ltd. Ord. 5.00
City Trust Ltd. Ord. 5.00
Eaagads Ltd. Ord. 1.25
Express Ltd. Ord 5.00
Williamson Tea Kenya Ltd. Ord. 5.00
Kapchorua Tea Company Ltd. Ord. 5.00
Kenya Orchards Ltd. Ord. 5.00
Standard Newspapers Group Ord. 5.00
Limuru Tea Company Ltd. Ord. 20.00

Appendix vi: Company Sample Breakdown

Main Investment Market Segment (MIMs) sampled	No. of companies	
Agricultural	3	
Commercial and Services	6	
Finance and Investment	8	
Industrial and Allied	11	28
		6
Alternative Investment Market Segment		
TOTAL		**34**