FACTORS AFFECTING POST-INITIAL PUBLIC OFFER SHARE PRICES IN KENYA

(A CASE STUDY OF THE NAIROBI STOCK EXCHANGE)

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A Research Project Report Submitted in Partial Fulfilment of the Requirement for the Award of the Executive Masters Degree in Business Administration of Jomo Kenyatta University of Agriculture and Technology

May 2011

DECLARATION STATEMENT

The candidate's declaration

This is to declare that this research project report is my original work and has not been submitted to any other university for examination.

Signed ______________ 24/05/2011

Cornelius M. Muthiani — Date

HD334-033-0776/2009

The supervisors' declaration

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

Signed ______________ 25/05/2011

DR. C. Ombuki — Date

Signed ______________ 25.05.11

MR. J. Kabiru — Date

DEDICATION

I dedicate this research project report to the almighty God who enabled me to complete it, and to my family; My dear wife Nthambi, and my wonderful children Nzilani, Muthiani (Junior) and Mwelu for their support and invaluable encouragement.

ACKNOWLEDGEMENT

I would like to acknowledge my supervisors Messrs C. Ombuki (DR) and J. Kabiru for their invaluable time, advice and guidance throughout the project. I would also like to register my profound gratitude to the staff of Kenya Institute of Management Library for their support during the research.

ABSTRACT

The objective of the study was to establish the factors affecting post-IPO share prices of quoted companies in the Nairobi Stock Exchange. The factors, namely, Information about the company, the economic conditions in the country, dividend policy of the company; and the number of shares issued. A survey was carried out to establish how the above factors affect post IPO share prices. Further information relating to post IPO shares and price movements of the companies surveyed was obtained from the NSE and the companies' websites. Each of the eight company's shares price movements was evaluated against the four factors with the objective of establishing the role each factor on the price movements. Findings of the study established that the four factors greatly affect the post-IPO share prices. The respondents to the study provided further information on other factors that also influence share prices in the stock market. The study concludes that the post-IPO shares prices are greatly influenced by the four factors studied. The study recommends that companies intending to issue IPOs to be conducting surveys to establish how the above factors would influence the post-IPO share prices. It is further recommended that companies that have issued IPOs and their share prices are not performing well should evaluate how the factors are affecting the company's share prices in the market and decide how they can influence the share prices positively to improve investor confidence.

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ABBREVIATIONS

AGM	-Annual General Meeting
AFC	- Agricultural Finance Corporation
CBK	-Central bank of Kenya
CIC	-Capital Issues Committee
CMA	-Capital Markets Authority
DFIs	-Development Financial Institutions
DFCK	-Development Finance Corporation of Kenya
EABL	-East African Breweries Ltd
EAC	-East African Community
EADB	-East African Development Bank
EMH	-Efficiency Markets Hypothesis
EPS	-Earning per share
GDP	- Gross Domestic Product
HFCK	-Housing Finance Company of Kenya
ICDC	-Industrial Credit and Development Corporation
IDC	-Industrial Development Corporation
IFC	- International Finance Corporation
IPO	-Initial Public Offer
KCB	-Kenya Commercial Bank
KENGEN	-Kenya Electricity Generating Company
KPCU	-Kenya Planters and Cooperative Union
KTDC	-Kenya Tourism Development Corporation
Kshs.	-Kenya shillings
LTD	-Limited
NBK	-National Bank of Kenya
NPV	-Net Present Value
NSE	-Nairobi Stock Exchange
PEV	-Post Election Violence
S. NO.	-Serial Number
VAR	-Vector Auto Regressive

OPERATIONAL DEFINITION OF TERMS

Dividend policy

Dividend policy refers to management's long-term decision on how to deploy cash flows from business activities, that is, how much to invest in the business, and how much to return to shareholders.

Initial Public Offer

Initial Public Offer (IPO) is the first sale of stock by a company to the public

Share

Certificate representing one unit of ownership in a corporation, mutual fund, or limited partnership.

Shareholder

One who owns shares of stock in a corporation or mutual fund.

CHAPTER ONE

INTRODUCTION

1.1 Background Of the Study

The study investigated the factors affecting share prices after initial public offering in the Nairobi stock exchange for the period from January 2001 to December 2010. The main objective of this study was to establish the factors that influence share prices in the secondary market after the influence of Initial Public Offer (IPO) campaign and marketing has calmed down to allow the forces of supply and demand take effect on share prices. During the IPO period, the decision to invest in the shares on offer is based on the customers' awareness and perception created through advertising and prior information about the company and its worthiness.

Firms go through a transformation in their quest for capital depending on their stage in the lifecycle of the firm. From incubator stage to where firms initially begin with individual or family seed money, they grow on to acquire bridge and mezzanine capital from venture capitalists and bank loans to finance their next phase. After acquiring critical mass ascertained by market ratios, the firm is ready to expand its ownership to have a steady source from which to tap future funds for growth and reduce encumbrances usually in form of bank debt.

This transition is facilitated by selling common stock to the public for the very first time vide the initial public offering (IPO) by way of listing the shares in a recognized shares. Listing in the stock market is significant to investors, regulators, creditors, suppliers and the general public. It marks a point in the history of a firm that has come of age and is willing to be put under scrutiny and share its risks and rewards with the larger world. The firm will have to determine what proportion it wishes to extend to the investing public based on various incentives given by the law (Kaaria, 2009).

IPO's are also used to give liquidity to existing shareholders who wish to cash some of their equity through the stock markets. Because private firms don't have a liquid market, founder members opt for the IPO as a way to cash their gains and expand the shareholder base so as to diversify risk. IPO's can be utilized to gain a tax reduction, for instance under the Finance Bill of 2005 - 2006, firms ceding 25% or more through an IPO, enjoy preferential corporate tax at the rate of 25% compared to 30% for non-public firms. In the wake of this law in 2006, there has been an increase of private and state owned organizations making their voyage into the IPO market. Kengen, Eveready, Access Kenya, Kenya-Re, Safaricom Limited, and Co-operative Bank are some of the notable entrants in the last four years that have benefited from this law (Kaaria, 2009).

The pricing and performance of initial public offerings is one of those contentious issues that incessantly attract the attention of many researchers in finance. There is extensive empirical evidence on the abnormal initial returns provided by IPOs, and the long-term underperformance of IPO shares, the search for the reasons for these anomalies is unresolved. However, the ongoing quest to uncover the reasons for IPO under-pricing and long-term underperformance has generated various hypotheses such as the Winner's curse hypothesis, the market feedback hypothesis, the certification hypothesis, the market feedback hypothesis, the lawsuit avoidance hypothesis and the Fads (Impresario) hypothesis (Kaaria, 2009).

1.2 The Capital Market Authority

The Capital Markets Authority (CMA) was set up in 1989 through an Act of Parliament (Cap 485A Laws of Kenya). The CMA, which is a body corporate with perpetual succession and a common seal, was constituted and inaugurated in 1990. The CMA is a statutory agency charged with the prime responsibility of regulating the development of orderly, fair and efficient capital markets in Kenya. It licenses and supervises market intermediaries, conducts on-site and off-site market surveillance and enforces compliance, and promotes market integrity and investor confidence (CMA Handbook 2005). The CMA has on several occasions suspended the operating licenses of stock brokerage firms that failed to follow set regulations, uphold their responsibility and thereby cast doubt on the integrity of the capital markets. The CMA regulations (2002) set out requirements for stock brokers to operate at the stock exchange.

1.3 The Nairobi Stock Exchange

In Kenya, dealing in stocks and shares started in the 1920s when the country was still under British colony. There was however no formal market, no rules and no regulations to govern stock brokerage activities. Trading took place on gentlemen's agreement in which standard commissions were charged with clients being obligated to honour their contractual agreements of making good delivery and settling relevant costs. In 1951 an Estate Agent by the name of Francis Drummond established the first professional stock broker firm and other stock brokerage firms were later established. The NSE came into being in 1954 when trading used to take place over a cup of tea at the New Stanley Hotel (Muga, 1974).

The Nairobi Stock Exchange was constituted as a voluntary association of stock brokers registered under the societies Act in 1954 and in 1991 the Nairobi Stock Exchange was incorporated under the companies Act of Kenya as a company limited by guarantee and without a share capital. Subsequent development of the market has seen an increase in the number of stockbrokers, introduction of investment banks, establishment of custodial institutions and credit rating agencies and the number of listed companies have increased over time. Securities traded include, equities, bonds and preference shares (www.nse.co.ke).

The NSE market promotes a culture of investing, were savers can invest their money to earn returns, and the returns act as incentives to consume less and save more. The stock exchange market brings providers of capital and organizations that require capital. Providers of capital should earn returns on their investments through dividends and or capital growth, thereby increasing the wealth of the nation; while the organizations in which they invest do provide jobs and drive the economic development of the country (Nyangwara 2006).

1.4 Trends in listing of companies in Kenya

Before independence, the stock market experienced tremendous growth in the number of firms listed. For example, the Nairobi Stock Exchange (NSE) had 46 listed companies by end of 1954, increasing to 50 in 1956. By 1959, the market had a total of 13 new listings and four delistings (Lehmanns, Ngiga, Lowis and East Africa Match), but there was no listing of firms from the financial sector. In the 1960s, the number of new listings increased to 19 while the number of delistings rose to 11, such that the total number of listed companies increased from 56 in 1960 to 63 in 1969. During the period, the first firm from the financial sector was listed and locally controlled companies made a significant entry. As noted in the 1967 Economic Survey, the new issues helped to increase availability of sound equity investments in which local people were able to invest their savings, increasing both their activity in the market and holding shares in these companies (Ngugi and Njiru 2005).

The government, which was enthusiastic about the gains of political independence, took deliberate efforts to encourage the financial system (predominantly the banking sector) to provide credit facilities to those wishing to purchase shares both in the primary and secondary markets. As a result, most of the initial public offers (IPOs) were heavily over-subscribed. Available data indicate that the period 1966-1970, twelve public offers were made with a value of Kshs 46.1 million. The industrial sector dominated with 42% of the total number of issues made and 74% of the total value was raised.

The period following the establishment of Capital Issue Committee (CIC) saw a high number of delistings (11) compared to new listings (7), such that the total number of firms listed declined from 64 in 1970 to 57 in 1979; two of the delisted firms followed the breakup of the East African Community (EAC). Two companies were taken over (Benbros was taken over by CMC and Buret Tea by Brooke Bond), two voluntarily wound up (Grosvenor Properties and English Press), and one reduced capital (Town Properties).

Data on the amount of capital raised with new issues is not systematically available. For example, data from IFC/CBK (1984) indicate that for the period 1971-1980, eleven issues worth Kshs 243.6 million were made. However, it is not clear which among these were new issues. The total value of public issues was Kshs 182.952 million in 1971, with the industrial sector sharing 53% and banking sector 39%. During the period 1980-1989, only three initial public offers (IPOs) were made. The three IPOs were mainly made by financial institutions and one of them was a divestiture of government shares. Other issues made were two rights issues, one debenture, two loan options and two private placements. These IPOs raised an equivalent of 0.313% (1986), 0.39% (1988), and 0.718% (1989) of the gross investment. As a ratio to gross investment, the debenture accounted for 0.127% while the loan options accounted for 0.068% (1982) and 0.391% (1986).

Growth in the number of listed companies, however, was very marginal mainly because of the minimal number of new IPOs issued and the de-listing of companies. The total number of listed firms was therefore 57 in 1989, similar to the level in 1980. Due to the delistings, the reform period had a generation of new companies to replace the companies originally listed when the market opened its doors and an increased proportion of locally controlled companies (KIPPRA paper 2005).

In the reform period 1990-1999, nine (9) new public offers were made of which four (4) were parts of the on-going privatization process of government parastatals. For example, the National Bank of Kenya (NBK) made its first public offer in 1994, which saw the government floating 20% of its issued equity, while the 1996 offer saw the government reduce its stake in the bank to 22.5%. Kenya Commercial Bank (KCB) made its first public offer in 1988, which saw the government shareholding decline by 20% to 80%. Another offer was made in 1990, reducing government shareholding by 10% to 70% while the 1996 offer reduced government shareholding by 10% to 60%. The fourth public offer of 1998 reduced further government shares to 35% such that public shareholding went up to 65%.

Among the hailed successful stories in the privatization process is Kenya Airways, which saw the structure of shareholding change with KLM Royal Dutch Airlines holding 25%, the government 23%, the Airways staff 3%, the Kenyan public 34% and foreign investors 14%. For Uchumi, it was expected that with the offer in 1992, the public, companies, trusts, pension funds, and cooperatives would hold effectively slightly more than 53% of the enlarged ordinary share capital of the company. The issues made during the period were over-subscribed while seasoned offers recorded a lower subscription rate. By 1998, the market had 58 companies and 69 securities listed on the stock exchange; the last IPO was offered in 1997. 78% of the listed securities were ordinary shares, 17% were preference shares, and 4% were loan stocks.

Of the total listed companies, 72% were locally controlled while the industrial and allied sector took the highest percentage (30%) of the total listed companies. Only 35% of the total listed firms were included in the calculation of the NSE index. The minimal number of new listings indicates that the implemented reforms did not achieve much in attracting listing of private companies. The period from the year 2000-2001 witnessed listing of the first information technology firm (African Lakes) and sugar firm (Mumias Sugar Company). The two issues fetched about Kshs 1,500 million but unlike the previous offers they were under-subscribed, signalling a growing listing risk. Under-subscription was attributed to the depressed market and declining individual disposable income following the economic downturn, coupled with an investment mood that seemed to favour secure high yielding government securities. In addition, three companies were delisted from the year 2000, two of them for failure to comply with the listing requirements—especially failure to comply with the continuing reporting obligations—while one wound up following group re-organization (KIPPRA paper 2005).

The Kenyan capital market recorded a remarkable milestone on 8th May 2001 when the CMA launched the reform strategy for the fundamental reorganization of the NSE. The reform was aimed at responding to the changing needs of the market and the economy, as well as furthering measures towards deepening of the capital markets in Kenya (NSE Handbook, 2005). Although the period 2002 – 2005 was quiet as far as IPOs are concerned, the period 2006-2008 recorded a high number IPOs with seven companies issuing their shares in this period.

The reform process has also seen cross-border listings at the Uganda Stock Exchange although the listing did not involve the making of public offer or sale of new shares. The first two companies to list across the border are the East Africa Breweries Ltd (EABL) in March 2001 and the Kenya Airways in March 2002. Listing of EABL at the Uganda Stock Exchange offered shareholders of Uganda Breweries opportunity to exchange their shares with those of EABL. Similarly, listing of Kenya Airways allowed investors to buy and sell their Kenya Airways shares directly on the Uganda Stock Exchange.

Presently, the market has 53 active listed companies of which 15.1% are listed on the Alternative Investment Market Segment (AIMS). The industrial and allied sector has the highest share of listed firms (32%) while the agricultural sector has the least (5.7%).

1.5 Problem Statement

The Nairobi stock exchange is one medium through which investors put their funds now for future higher returns (Kaaria 2009). By studying the performance of IPOs at the stock exchange, investors are better informed on the expected returns in IPOs. When firms issue shares to the public for the first time, the after listing performance and share prices follow different patterns, which can be explained by various theories and factors. The factors affecting post-IPO share prices are therefore important to the issuers, regulators and the investing public since price fluctuations have serious implications on portfolio strategies employed by individual and institutional investors. The purpose of this study is therefore to establish the factors that affect post-IPO share prices.

1.6 Objectives of the study

The broad objective of this study is to establish the factors affecting post-IPO share prices of quoted companies in the Nairobi Stock Exchange.

Specific Objectives:

(i) To investigate how Information about the company affects the post IPO share prices in the stock market.

(ii) To examine how economic conditions influence post IPO share prices in the market.

(iii) To evaluate how dividend policy influence share prices after an IPO.

(iv) To determine how the number of shares issued affect the post-IPO share prices.

1.7 Research questions

This study will attempt to answer the following questions:

(i) To what extent does information about the compa ny affect share prices after an IPO?

(ii) Do economic conditions influence post-IPO share prices?

(iii) How does a company's dividend policy affect the company's post-IPO share prices?

(iv) To what extent does the number of shares issued influence the post-IPO share prices?

1.8 Justification of the study

The NSE is an emerging market that has recorded remarkable growth of trading volume and number of listed companies in the last ten years. The average monthly trading volume is in excess of Kshs. 200 billion while market capitalization exceeds Kshs. 1 trillion per day. The NSE has therefore, become very central avenue for mobilizing funds into the capital markets. Therefore, it is expected that this study will harmonize the expectations of issuers, investors, under-writers and regulators by demonstrating the factors affecting post-IPO performance of the shares prices and their effect on shareholders wealth.

1.9 Importance of the study

The study would be beneficial to Kenyan companies that have issued shares to the public through IPOs and have been unable to convincingly explain the movement of share prices after the IPO.

Shareholders and potential investors shall benefit from the study through creation of awareness on the factors affecting post-listing share prices.

International investors can benefit from the study by gaining a deeper understanding of the Kenyan stock market.

Academicians, consultants and researchers wishing to learn about IPOs and the stock market in Kenya will benefit from the study. The study can provide background information on the subject that may facilitate their research since the area of stock market is dynamic and changing.

1.10 Basic Assumptions of the Study

The following assumptions will be considered in the study;

Investors are rational in the selection of the shares to purchase and seek to maximize returns among other objectives.

Other than the four factors studied, other factors that can affect post-IPO share prices were insignificant during the period being studied.

Information affecting share prices is available to all investors and there are no disadvantaged investors.

1.11 Scope of the study

The study will cover companies listed in the NSE from January 2001 to December 2010. This will capture price performance during the economic recession of 2000-2002 that was followed by the economic boom from 2003 – 2006 and the slump thereafter. The aim was to compare the first day prices with the offer prices and thereafter the share prices for the next 12 months after listing, to establish explanations for patterns that are observed.

1.12 Limitations of the Study

The IPOs studied were issued in vastly different economic growth in Kenya ranging from 1.2% in 2001 to 7% in 2007, then 2.6% in 2010.

The four factors studied are not the only factors affecting post-IPO share prices and there is a possibility of other factors to have influenced the share prices.

This study considered only 8 companies from 53 companies listed at the NSE (as at December 2010). Compared to researches done in other countries, this is a very small sample and larger sample would have been ideal.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the theoretical literature review on the factors affecting post IPO share prices in the secondary market. In particular, the literature review discusses the various hypotheses on post-IPO performance of the secondary market. The chapter also presents the conceptual framework of the study.

2.2 Background

Stock markets in the world individually and collectively play a critical role in their economies. They provide an avenue for raising funds, for trading in securities including futures, options and other derivatives which provide opportunities for investors to generate returns. The performance of the stock market is influenced by a number of factors the main ones among them being the activities of governments and the general performance of the economy (Lee, 1998).

The pricing and performance of initial public offerings is one of those contentious issues that incessantly attract the attention of many researchers in finance. There is extensive empirical evidence on the abnormal initial returns provided by IPOs, and the long-term underperformance of IPO shares, the search for the reasons for these anomalies is unresolved. However, the ongoing quest to uncover the reasons for IPO under-pricing and long-term underperformance has generated various hypotheses.

2.2.1 Winner's Curse Hypothesis

The winner's curse is a phenomenon akin to a Pyrrhic victory that occurs in common value auctions with incomplete information. In short, the winner's curse says that in such an auction, the winner will tend to overpay. The winner may overpay or be 'cursed' in one of two ways: the winning bid exceeds the value of the auctioned asset such that the winner is worse off in absolute terms; or the value of the asset is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated. However, an actual overpayment will generally occur only if the winner fails to account for the winner's curse when bidding (an outcome that, according to the Revenue Equivalence Theorem, need never occur). So despite its dire-sounding name, the winner's curse does not necessarily have ill effects in practice. Rock (1986) argues that the un-informed investors face the winners' curse since it can only be observed if the offering in which they participated was a "lemon" or not.

2.2.2 Signalling Hypothesis

According to Allen and Faulhaber (1989) and Grinblatt and Hwang (1989), Welch (1989) and Chemmanur (1993), the framework of asymmetric information and the underpriced new issues "leave a good taste" to investors, allowing the firms and insiders to sell future offerings at a higher price than otherwise would be the case. It is well documented that initial public offerings (IPOs) of common stock in most countries are undervalued. Various explanations have been offered to account for the phenomenon, one of them being the signalling hypothesis. According to these authors, managers use the offering price as a signal given a situation of asymmetric information. The initial owners of the issuing firm are supposed to be better informed than other investors. They signal positive information through the under-pricing of the stock in the IPO.

Signalling is costly because it results in a wealth transfer from initial owners to new investors. The signalling cost is compensated for by the fact that the subsequent capital issue will be made at a higher share price. The companies could issue an IPO by proposing to investors a smaller fraction of their capital initially, with a subsequent issue completely satisfying their total capital needs. In this context lesser quality firms will not be able to compete with higher quality firms.

2.2.3 The Market Feedback Hypothesis

According to Benviste and Spindt (1989) and Jegadeesh et al. (1993), under the condition of asymmetric information between underwriters and investors, underwriters under price the IPOs to induce regular investors to reveal information during the pre-selling period and through the book building process underwriters obtain valuable information. The market feedback hypothesis, as suggested by Jegadeesh, Weinstein and Welch (1993), and modelled by Van Bommel (2002), market participants are better informed about the true value of the firm than the initial shareholders. This information would be revealed to them by the evolution of the stocks' price after the IPO. If this information were of a positive nature, the managers would be encouraged to invest in the firm and issue more stocks subsequently.

2.2.4 The Lawsuit Avoidance Hypothesis

The notion that under-pricing may reduce legal liabilities was initially suggested by Logue (1973) and Ibbotson (1975). Formal models of this hypothesis include Hensler (1995) and Hughes and Thakor (1992). According to the lawsuit avoidance hypothesis, large positive initial IPO returns reduce the probability of a lawsuit, the conditional probability of an adverse judgment if a lawsuit is filed, and the amount of damages in the event of an adverse judgment. While the lawsuit avoidance hypothesis seems reasonable, it has attracted only limited empirical scrutiny. Tinic (1988) presents evidence consistent with the hypothesis.

2.2.5 Fads (Impresario) Hypothesis

Aggarwal and Rivoli (1990) and Ritter (1991), based on the evidence that IPOs underperform the market over the long-term, argue that the abnormal initial returns of IPOs are not due to systematic under-pricing but over-valuation of IPOs by investors or the presence of fads in the early market trading. In other words, the fads hypothesis argues that IPOs may be correctly priced but investors overvalue the new issues in the early market. Therefore, under the markets assumptions of efficient markets, the price of IPOs should reach their equilibrium price leading to a negative correlation between initial returns and long-term performance of IPOs.

2.3 Performance in the Secondary Market

Ibbotson and Ritter (1995) provide international evidence on long-run underperformance of post-IPO market. Other theories that attempt to explain long run underperformance include that of Miller (1997) where he states, that those most optimistic of an IPO as the buyers sell their shares in the post-IPO market and thus they bear the brunt of long run under performance.

Schindler (1990) proposed that the IPO market is subject to fads by underwriters who under-price to create an artificial shortage of the new shares. Other studies have confirmed under performance after one year (Aggarwal and Rivoli, 1990), three years (Ritter 1991) and five years (Loughran and Ritter, 1995). The fads theory forwarded by Aggarwal and Rivoli (1990) advances the theory that IPOs are generally overvalued at the offering date and that optimism fades over time and the value of the new share eventually corrects downwards to the IPO price and below. Under pricing of IPOs was determined as the cause of abnormal positive returns in the first days of IPO trading in the 2002 study by Loughran, Ritter and Rydqvist.

Levis (1993) reported an average first day return of 14.3% for 172 UK IPOs from 1980 to 1988. In 1996, Lee, Taylor and Walter studied initial and long-run returns for Singaporean IPOs for the period 1973 to 1993 and reported the short run returns of 30% where this return went in tandem with retention of ownership and over-subscription.

Ritter (1997), Welch (1989), Ibbotson et al (1994) and Rojan and Servaes (1997) suggest that an average initial return of 16% in the USA. Janice How in her paper, Initial and Long-Run Performance of Mining IPOs in Australia for the period 1979 to 1990 shows an average under pricing of 107.18%. Various studies have attempted to explain why under-pricing is widely practiced in IPOs pricing. The study notes that the size of an issue will command the degree to which information is disseminated to the public. In the case of the Safaricom IPO advertising and public relations budget was Kshs. 7.1 million for a Kshs 50 billion issue. It attracted over 800,000 participants in a market with 1.3 million active investors as measured by the number of central depository shares accounts opened then. This therefore, reduced the level of under pricing resulting in a quick convergence of the first day's prices to the IPO price, closing the period for short run super profits.

2.4 The Role of Information

The impact on the stock market by business related information has been well researched in previous literature on many stock exchanges around the world. These studies have focused on information releases specific to companies listed on the stock exchange and the macroeconomic environment in which they operate (Laidroo, 2008).

Researchers have focused their efforts on the effects of company specific financial data released by the companies and the impact they have on the stock market, with minimal attention being paid to non financial data releases, and even less to system related information releases. The studies on financial data releases, the impact of the company information releases was measured, to determine the extent of economically significant changes it introduced in the stock market returns and volumes traded. The magnitude of price volatility and volume movements prompted by the release of particular information into the market, enabled classification of the relative economic importance the different information categories were valued by the market.

Laidroo (2008) observed slight variances in return and volume reactions to business financial news than company and management specific related news. This is quite surprising considering the consensus of both theorists and researchers that financial information should be more highly valued thereby creating greater volatility in the market around the announcement date. A study by Oyugi (2007) on the market reaction to financial disclosure at the NSE also revealed a weak relationship between the disclosure and trade volume. It was shown that the frequency of financial disclosure had a higher impact on the volume traded but not on the listed company's performance on the market.

In comparison to non financial data, Laidroo, (2008) observed greater impact on returns and volume with regards to financial information release as opposed to other business related or management news. The market was more sensitive to financial information from the company as opposed to the information release of other company related news. The assumption to this anomaly is that the share price would already incorporate any non-financial data as it is expected to be widely available in the market according to efficiency market hypothesis (EMH) as opposed to internal financial business related information.

Empirical evidence as discussed indicates that there is a relationship between information release into the market and the market performance. The capital market is driven by positive and negative information releases that investors use to determine the positions they are to take in the capital markets. The investors and investment analysts examine the information released, assigning importance to every news item and invest accordingly.

Majority of the studies found that financial and economic information appeared to be significantly linked to performance of the market when received. The effect on trade and volume in the market for listed companies on receipt of financial information was high but the relationship to their returns was limited (Kutan and Aksoy, 2004).

2.5 The effect of Economic Conditions

The interaction between the stock market and aggregate economic activity has been the subject of considerable interest in the past decade. The relationship has traditionally been one in which the economy affects the stock market, usually based on the common text-book model of share prices as the discounted present value of expected future dividends (Mullins and Wadhwani 1989). In this framework share prices are influenced both by output (via profits and dividends) and interest rates (via the rate at which future dividends are discounted) (Barro, 1990).

More recently, attention has also been focused on effects in the opposite direction, that is, from the stock market to the economy, no doubt influenced by the strong stock market performance in the 1990s and the sharp "corrections" in 2001 following the long bull market. The extant literature has identified two principal channels of influence, the first from stock prices to consumption via a wealth effect and the second from stock prices to investment via cost of capital and other influences (Poterba 2000 and Starr-McCluer 2002).

The vector auto-regressive (VAR) model has been a popular one for the analysis of the inter-temporal relationships between macro variables and stock prices; it requires little by way of prior theoretical structure and the tools for the estimation and analysis of the dynamic behaviour of such models are widely available. An early VAR analysis in this area is the one by Lee (1992) and more recent ones are by Cheung and Ng (1998) and Gjerde and Saettem (1999).

A series of papers by Gallagher and Taylor also focus largely on the decomposition of stock prices into temporary and permanent components using the Blanchard-Quah identification scheme although, in contrast to the Lee et al. papers, the identification proceeds using inflation rather than financial variables as the additional identifying variable. In Gallagher (1999) the Blanchard and Quah procedure is applied to a VAR in two variables (stock prices and inflation) to identify temporary and permanent components in stock prices for 16 European countries while in Taylor and Gallagher (2000) a similar technique is applied to US data, using nominal interest rates as the second identifying variable in the place of inflation and applying estimation techniques which are robust to the usual departures from iid-normality common in financial data.

In Gallagher and Taylor (2002a) the focus is, like Hess and Lee (1999), on the stock-price-inflation puzzle which is analysed in a model containing only these two variables. In Gallagher and Taylor (2002b) the model is again a two-variable VAR in inflation and stock returns which is used to decompose stock prices into temporary and permanent parts using the Blanchard and Quah procedure. In the latter paper, however, the restrictions used for identification are based on a simple macroeconomic model which allows the distinction between demand- and supply-driven components of inflation.

2.6 The role of Dividend Policy

Dividend policy refers to management's long-term decision on how to deploy cash flows from business activities, that is, how much to invest in the business, and how much to return to shareholders (Nitta 2006). Healy and Palepu (1988) examined if changes in dividend policy convey information about future earnings of firms. They observe the impact of dividend initiation on shareholder value and also on earnings per share five years before and after dividend initiation announcements. They also studied if earnings changes subsequent to dividend initiation or omission are related to information released at the time of the initiation announcement. They found that firms that initiate dividends have significant increases in their earnings for at least one year before, the year of, and the year following dividend initiation.

According to Miller and Modigliani (1961), it was suggested that there is a relationship between dividend announcement and share price movements. It was further suggested that price movements might be attributed to the information content of cash dividends. More recently, this notion was supported by studies by Aharony and Swary (1980), in which it was found that there is significantly positive association between dividend changes and stock returns. It was concluded that these results are attributed to the information content of dividends.

In many cases, companies choose to explicitly state the provisions within the dividend policy. This is definitely to the advantage of the shareholder, as a well defined policy makes it much easier to project the amount of payout profits generated for the period under consideration and thus be able to determine the size of the dividends that will be issued. When the dividend policy is well defined and documented, it is easy for the shareholder to obtain a written copy and thus be fully informed as to how the policy works.

In the cases where the dividend policy is not specifically defined, investors often look at the history to spot any trends that emerged from the past. If the dividend payments have been more or less constant for the last several years, and there has been no loss in business volume, it is reasonable to assume the payments will still be in the same general range as before. However, if the dividend history is more volatile, the shareholder may attempt to identify what factors led to the up and down movement of the dividends and determine if any of those factors are relevant to the current dividend period.

In both expressed and implied dividend policy procedures, it is less common for the dividends to be increased. Part of the reason for that is companies tend to look closely at retained earnings and want to make sure the increased level of earnings will be sustained over the long term. Once this upward trend is deemed to be more or less permanent, the company may choose to increase dividends.

2.7 The effect of number of shares issued

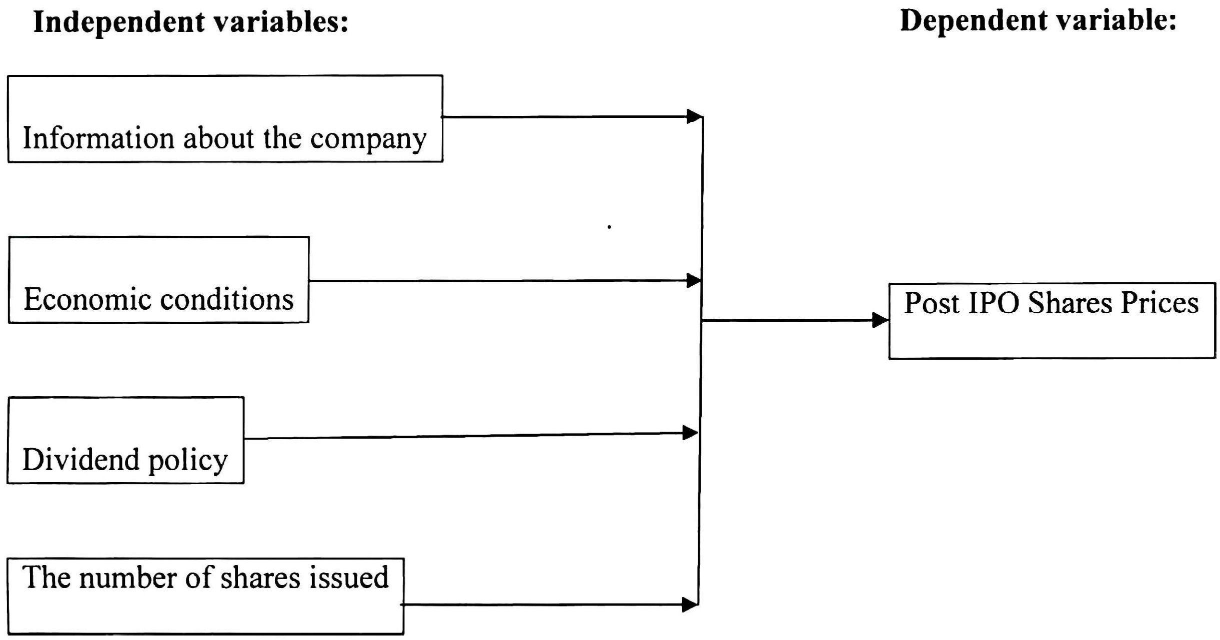
The number of shares issued and trading in the stock market affects the shares price depending on the market forces of demand and supply. When the supply exceeds demand share prices fall and when demand exceed supply then share prices will rise, of cause holding all other factors constant (Fedorov 2007). A corporate charter sets the maximum number of shares a company is authorized to issue. Companies rarely issue all the authorized shares in one go, reserving some for employee stock options, secondary stock offerings and corporate acquisitions.

The total number of shares issued and outstanding typically remains constant for extended periods of time, increasing periodically as new shares are issued. But the numbers of shares issued and outstanding can also decrease under certain circumstances (Fedorov 2007). The number of shares issued can be increased through stock splits, warrants exercise, and rights issues among other methods. On the other hand, issued shares can be reduced through share buyback, reverse stock split etc.

Reducing the number of shares in circulation may have a beneficial effect on the stock price: the stock becomes harder to get, with the same number of investors chasing it, which pushes up the share prices (www.forexyard.com).

2.8 The conceptual framework

From the foregoing discussion, the study will adopt the following conceptual framework:



Source: Researcher: 2011

Within this framework, the researcher argues that post-IPO share prices in the secondary market are dependent on the information and news about the listed company. Positive news about the company will cause the post-IPO price to rise while negative information will cause the post IPO share price to fall. The post IPO share prices also will also be influenced by the economic conditions, the number of shares issued by the company and the company's dividend policy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives the procedures that were used to conduct the study. The chapter specifies the research design, population of the study, sampling design, data collection, and data analysis.

3.2 Research Design

This study is an event study, which was conducted through a case study. The method was chosen because it enabled the researcher to probe and obtain an in-depth understanding of a case such as the NSE. Event study measures the impact of a specific event on the value of the firm. Event is some change, development or announcement that may produce a relatively large change in the value of an asset over some period. This research design is valuable for detailed analysis. Young, (1960) and Kothari, (1990) concur that a case study often provides focussed and valuable insights to a phenomena that may be vaguely known and less understood.

3.3 The Population of the Study

The population of this study comprised all the IPOs issued between 1st January 2001 and 31st December 2010.

3.4 Sample Design

This is a census study because the sample of the study is the actual population of eight, that is, the number of companies that issued their initial public offers between 2001 and 2010. In this regard the sample is the same as the population because conventional practice stipulates that populations be a minimum of thirty constituents in order to derive a sample smaller than the population.

3.5 Data Collection

A questionnaire was prepared to assist in gathering information for the study. The questionnaires were distributed to the senior finance officers of the targeted companies in March 2011, supported by an authority letter. They consisted of both structured and unstructured questions. The questionnaire was distributed to the offices in Nairobi and one e-mailed to Western Kenya, with a brief explanation of the purpose and importance. The respondents were given two weeks to fill the questionnaire after which the researcher collected the questionnaires. The questionnaire method was used because of its confidentiality, efficiency and cost saving attributes.

The study also used secondary data from the NSE data base. Data was collected regarding the NSE share prices and other measures of market performance. The share prices were obtained from the NSE websites as well as monthly finance journals that contain daily data for the period under review. Company data was obtained from the information memorandum (Prospectus) issued to the public at the time of offering and is reliable, having been audited by third party accounting firms.

3.6 Data Analysis

The data was both quantitative and qualitative and therefore qualitative data had to be quantified to suite data analysis. Data received from the field through the questionnaire, was analyzed using descriptive statistics that included a simple tallying procedures while the quantitative data collected was summarized and analyzed by using Microsoft excel application. Further, the study measured the price variance in relation to the IPO offer price to establish the movement of the share price in relation to the offer price. The researcher compared and evaluated the share prices to the factors affecting the post IPO prices in order to explain the price movements.

To identify the price movement of each IPO issued, the study applied price variance analysis and percentage variance from the offer price.

3.6.1 Price variance

The study begins by measuring the variance between day one opening and closing share price with the offer price, then the process is repeated by comparing the last day of the month share price with the offer price, for next twelve months.

Price Variance = Price Per share – Offer price per share

3.6.2 Percentage price variance

The study then converts the price variance into a percentage for comparisons purposes.

Percentage Price Variance = $\frac{\{\text{Price Per share} - \text{Offer price per share}\}}{\text{Offer price per share}} \times 100$

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

In this chapter, analysis of the data collected is conducted and the results presented. The data from the questionnaire is used to inform the analysis of the secondary data obtained from the NSE and other sources related to the eight companies listed during the period of study.

4.2 Background

The study covered the eight IPOs issued during the period 2001 – 2010. The companies, their offer periods and offer prices are shown in appendix 2. A questionnaire (Appendix 5) was administered to the eight companies through visiting the company offices in Nairobi and mailing to one company which is based in western Kenya. The respondents were given a period of two weeks to fill the questionnaires. One week after delivering the questionnaires, follow up calls were made to monitor progress and find if the respondents were experiencing any problem. Two respondents had misplaced the questionnaire, and therefore a replacement was done immediately. The response rate was 100%. Additional data was collected from the NSE information centres in Nairobi to complete the information gathering objective of the questionnaire.

4.3 Characteristics of the Study Sample

The characteristics and description of each of the 8 IPOs issued between 2001 and December 2010 are presented as follows.

4.3.1 Mumias Sugar Company Limited

Mumias Sugar Company Ltd IPO was issued in September 2001 and realized a total of Kshs 1.125 billion which was a subscription rate of 60%. The shares were listed and started trading on the 14th of November 2001.

Table 4.1: Mumias Sugar monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		6.25		
Day 1 Opening Price per share	14-11-2001	6.25	-	0%
Day 1 closing Price per share	14-11-2001	6.25	-	0%
Month **1** closing price	31-12-2001	6.35	0.10	1.60%
Month **2** closing price	31-01-2002	5.35	(0.90)	(14.40%)
Month **3** closing price	28-02-2002	4.50	(1.75)	(28.00%)
Month **4** closing price	28-03-2002	4.15	(2.10)	(33.60%)
Month **5** closing price	30-04-2002	3.30	(2.95)	(47.20%)
Month **6** closing price	31-05-2002	2.50	(3.75)	(60.00%)
Month **7** closing price	30-06-2002	2.50	(3.75)	(60.00%)
Month **8** closing price	31-07-2002	2.65	(3.60)	(57.60%)
Month **9** closing price	30-08-2002	2.50	(3.75)	(60.00%)
Month **10** closing price	30-09-2002	2.30	(3.95)	(63.20%)
Month **11** closing price	31-10-2002	2.50	(3.75)	(60.00%)
Month **12** closing price	29-11-2002	3.20	(3.05)	(48.80%)

Table 4.1 shows that the offer price of Kshs 6.25. The opening and closing day share price was Kshs 6.25 which was equal to the offer price.

As shown in the table, the post IPO period of 12 months is characterized by declining share prices. The price was below the offer price for the period under review except for the first month after listing.

The factors likely to have affected the post IPO prices could have been the relatively high number of shares issued by the company hence the supply was high than the demand. The economy was at recess (2001 GDP grew by 1.2%) and this also could have affected the share prices to fall below the offer price. Information from the sugar industry was not convincing as the locally produced sugar continued to experience competition from the cheaper imported sugar and this could be attributed to low share prices. It can therefore be concluded that the Mumias Sugar post IPO share prices declined because the factors caused the prices to decline.

4.3.2 Kenya Electricity Generating Company Limited

The KenGen IPO was issued in March 2006 and was at the time the largest in the history of the NSE injecting a total of Kshs 7.8 billion into the market. The IPO was widely publicized which contributed to its achieving a subscription rate of 333% translating to a total funds mobilisation by the investors of Kshs 26 billion. The company had to incur extra cost of processing refunds for the funds. The KenGen shares were listed and started trading in the NSE on 17th May 2006.

Table 4.2: KenGen monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		11.90		
Day 1 Opening Price per share	17-05-2006	49.00	37.10	311.76%
Day 1 closing Price per share	17-05-2006	40.00	28.10	236.13%
Month **1** closing price	30-06-2006	39.25	27.35	229.83%
Month **2** closing price	31-07-2006	36.00	24.10	202.52%
Month **3** closing price	31-08-2006	34.25	22.35	187.82%
Month **4** closing price	30-09-2006	35.00	23.10	194.12%
Month **5** closing price	31-10-2006	34.75	22.85	192.02%
Month **6** closing price	30-11-2006	32.00	20.10	168.91%
Month **7** closing price	31-12-2006	29.25	17.35	145.80%
Month **8** closing price	31-01-2007	21.75	9.85	82.77%
Month **9** closing price	28-02-2007	25.00	13.10	110.08%
Month **10** closing price	31-03-2007	18.65	6.75	56.72%
Month **11** closing price	30-04-2007	27.50	15.60	131.09%
Month **12** closing price	31-05-2007	27.25	15.35	128.99%

Table 4.2 shows that the offer price of Kshs 11.90. The opening day price was Kshs.49.00, 311.76% above the offer price while the first day closing price was Kshs 40.00, 236.13% above the offer price. The post IPO share price remained way above the offer price and thus investors who participated in the IPO enjoyed good returns. However, investors buying the shares from the stock market had mixed depending on when they invested.

The factors likely to have affected the post IPO prices could have been the economic conditions. The economy was at boom (2007 GDP grew by 6.1%) and continued to attract investors. The dividend practice and policy was consistent as KenGen consistently paid interim and final dividends and this caused the share price to spike upward in February 2007. Information from the energy industry and KenGen management was positive showing great potential for growth and is likely to have sustained the share price way above the offer price. However, contrary to expectation that the relatively large number of shares issued would dilute the post IPO share prices, the share prices remained high above the offer price. It can therefore be concluded that the KenGen post IPO share price remained above the offer price because most of the factors affecting post IPO share prices were favourable.

4.3.3 Scan Group Limited

The Scan group Limited IPO was the successor to the highly successful KenGen IPO and was issued in July 2006 realizing a total of Kshs 721 million. The subscription rate was 100%. The Scan group shares started trading on 29th August 2006.

Table 3.3 (next page) shows that the offer price of Kshs 10.45. The first day opening price was Kshs.20, 91.39% above the offer price while the closing day price was Kshs 15.00, 43.54% above the offer price. The share price was above the offer price for the whole year after listing and investors who participated in the IPO enjoyed good returns. Investors buying the shares from the stock market had mixed returns depending on when they invested.

The factors which influenced the Scan group post IPO share prices are similar to those of KenGen. The economy was at boom and the company dividend practice and policy was consistent. The advertisement sector was doing well and was giving signals of potential growth and these factors are likely to have caused the share prices to be high above the offer price.

It can therefore be concluded that the Scan group post IPO share price remained above the offer price because all the factors affecting post IPO share prices were favourable.

Table 4.3: Scan group monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		10.45		
Day 1 Opening Price per share	29-08-2006	20.00	9.55	91.39%
Day 1 closing Price per share	29-08-2006	15.00	4.55	43.54%
Month 1 closing price	30-09-2006	28.25	17.80	170.33%
Month 2 closing price	31-10-2006	24.25	13.80	132.06%
Month 3 closing price	30-11-2006	21.00	10.55	100.96%
Month 4 closing price	31-12-2006	24.75	14.30	136.84%
Month 5 closing price	31-01-2007	25.25	14.80	141.63%
Month 6 closing price	28-02-2007	23.50	13.05	124.88%
Month 7 closing price	31-03-2007	24.75	14.30	136.84%
Month 8 closing price	30-04-2007	23.50	13.05	124.88%
Month 9 closing price	31-05-2007	25.00	14.55	139.23%
Month 10 closing price	30-06-2007	25.75	15.30	146.41%
Month 11 closing price	31-07-2007	26.75	16.30	155.98%
Month 12 closing price	31-08-2007	26.00	15.55	148.80%

4.3.4 Eveready East Africa limited

The Eveready East Africa Limited IPO was issued in November 2006 and registered a subscription rate of 105% raising a total of Kshs 556 million. This was the third IPO in the same year, after KenGen and Scan group but investors still over subscribed for the shares. The shares were listed and started trading on 18th December 2006.

Table 4.4: Eveready monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		9.50		
Day 1 Opening Price per share	18-12-2006	11.00	1.50	15.79%
Day 1 closing Price per share	18-12-2006	11.00	1.50	15.79%
Month **1** closing price	31-01-2007	13.25	3.75	39.47%
Month **2** closing price	28-02-2007	10.95	1.45	15.26%
Month **3** closing price	31-03-2007	9.00	(0.50)	(5.26%)
Month **4** closing price	30-04-2007	9.05	(0.45)	(4.74%)
Month **5** closing price	31-05-2007	8.00	(1.50)	(15.79%)
Month **6** closing price	30-06-2007	7.90	(1.60)	(16.84%)
Month **7** closing price	31-07-2007	8.00	(1.50)	(15.79%)
Month **8** closing price	31-08-2007	8.05	(1.45)	(15.26%)
Month **9** closing price	30-09-2007	7.70	(1.80)	(18.95%)
Month **10** closing price	31-10-2007	6.90	(2.60)	(27.37%)
Month **11** closing price	30-12-2007	7.35	(2.15)	(22.63%)
Month **12** closing price	24-12-2007	7.95	(1.55)	(16.32%)

Table 4.4 shows that the offer price of Kshs 9.50. The opening and closing day price per share was Kshs 11.00, 15.79% above the offer price. As shown in the table, the post IPO period of 12 months is characterized by declining prices per share. The price was below the offer price for the period under review except for the first and second months after listing.

The factors likely to have affected the post IPO prices could have been the information from the company on competition from counterfeit products flooding the market. The company performance was not impressive and dividends were not guaranteed hence the poor share prices. It can be concluded that even though the economy was at a boom the other factors, that is, Information about the company, number of shares issued and dividend policy were unfavourable and therefore suppressed share prices to be lower than the offer prices.

4.3.5 Access Group Kenya Limited

The Scan group Limited IPO was issued in April 2007 achieving a subscription rate of 363%. The IPO raised a total of Kshs 800 million but investors mobilized a total of Kshs 2.9 billion account of the over subscription. The company had to content with the additional cost of processing refunds. The shares started trading on 4th June 2007.

Table 4.5 (next page) shows that the offer price of Kshs 10. The first day opening price was Kshs.14.50, 45% above the offer price while the opening day closing price was Kshs 23.45, 23.79% above the offer price. The post IPO share price per share was above the offer price for twelve months under review and was generally on the rise.

The factors likely to have affected the post IPO prices could have been the economic which was at boom and the GDP grew by 7%. The communication industry was also growing at a high rate.

The number of shares issued was not too many hence the demand never exceeded supply hence the possibility of rising share prices. The dividend practice of the company had been consistent and dividends were being declared year after year, hence attracting and retaining those investors who prefer dividends. It can therefore be concluded that the Access Kenya post IPO share price remained above the offer price because all the factors affecting post IPO share prices were favourable.

Table 4.5: Access Kenya monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		10.00		
Day 1 Opening Price per share	04-06-2007	14.50	4.50	45.00%
Day 1 closing Price per share	04-06-2007	13.45	3.45	23.79%
Month **1** closing price	31-07-2007	13.70	3.70	27.5%
Month **2** closing price	31-08-2007	17.35	7.35	53.65%
Month **3** closing price	30-09-2007	16.90	6.90	39.77%
Month **4** closing price	31-10-2007	18.70	8.70	51.48%
Month **5** closing price	30-12-2007	19.45	9.45	50.53%
Month **6** closing price	24-12-2007	23.25	13.25	68.12%
Month **7** closing price	31-01-2008	22.75	12.75	54.84%
Month **8** closing price	28-02-2008	25.00	15.00	65.93%
Month **9** closing price	31-03-2008	26.00	16.00	64.00%
Month **10** closing price	30-04-2008	33.50	23.50	90.38%
Month **11** closing price	31-05-2008	33.25	23.25	69.40%
Month **12** closing price	30-06-2008	35.00	25.00	75.19%

4.3.6 Kenya Re-insurance Company Limited

The Kenya Re IPO was issued in June 2007. This was the only IPO issued in the year 2007 and the last before the disputed elections of 2007. The shares were listed and started trading on 27th August 2007.

Table 4.6: Kenya Re monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		9.50		
Day 1 Opening Price per share	27-08-2007	18.50	9.00	94.74%
Day 1 closing Price per share	27-08-2007	16.00	6.50	68.42%
Month **1** closing price	30-09-2007	16.25	6.75	71.05%
Month **2** closing price	31-10-2007	14.95	5.45	57.37%
Month **3** closing price	30-11-2007	14.95	5.45	57.37%
Month **4** closing price	24-12-2007	16.95	7.45	78.42%
Month **5** closing price	31-01-2008	14.95	5.45	57.37%
Month **6** closing price	28-02-2008	15.85	6.35	66.84%
Month **7** closing price	31-03-2008	14.00	4.50	47.37%
Month **8** closing price	30-04-2008	16.70	7.20	75.79%
Month **9** closing price	31-05-2008	16.20	6.70	70.53%
Month **10** closing price	30-06-2008	16.90	7.40	77.89%
Month **11** closing price	31-07-2008	14.90	5.40	56.84%
Month **12** closing price	31-08-2008	15.70	6.20	65.26%

Table 4.6 shows that the offer price of Kshs 9.50. The first day opening price was Kshs.18.50, 94.74% above the offer price while the closing day price was Kshs 16.00, 68.42% above the offer price.

The post IPO share price remained above the offer price and thus investors who participated in the IPO had good returns. Investors buying the shares from the stock market had mixed depending on when they invested.

The factors likely to have affected the post IPO prices could have been the favourable information from the industry and the controlled nature of the industry. The economy was doing very well with a record GDP growth 7% in 2007. The number of shares issued was relatively high but did not flood the market to negatively affect the share prices downwards. The dividend policy given in the prospectus and the eventual payment of dividends was encouraging to investors. It can therefore be concluded that despite the 2007 general elections, Kenya-Re post IPO share price remained above the offer price because all the factors affecting post IPO share prices were favourable.

4.3.7 Safaricom Limited

The Safaricom IPO was issued in April 2008 immediately after the 2008 post election violence and was East Africa's biggest IPO. Despite the IPO coming soon after the disputed 2007 elections, the IPO received Kshs. 231.5 billion against a target of Kshs. 50 billion, a subscription rate of 463%. The refund process of the excess cash was tedious and has never been concluded to date due to the high subscription rate. The shares were listed and started trading on 9th June 2008.

Table 4.7: Safaricom monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		5.00		
Day 1 Opening Price per share	09-06-2008	8.00	3.00	60.00%
Day 1 closing Price per share	09-06-2008	7.35	2.35	47.00%
Month **1** closing price	31-07-2008	5.80	0.80	16.00%
Month **2** closing price	31-08-2008	5.50	0.50	10.00%
Month **3** closing price	30-09-2008	4.90	(0.10)	(2.00%)
Month **4** closing price	31-10-2008	3.40	(1.60)	(32.00%)
Month **5** closing price	30-11-2008	3.65	(1.35)	(27.00%)
Month **6** closing price	31-12-2008	3.60	(1.40)	(28.00%)
Month **7** closing price	31-01-2009	3.15	(1.85)	(37.00%)
Month **8** closing price	28-02-2009	2.55	(2.45)	(49.00%)
Month **9** closing price	31-03-09	3.00	(2.00)	(40.00%)
Month 1**0** closing price	30-04-2009	2.85	(2.15)	(43.00%)
Month **11** closing price	29-05-2009	2.75	(2.25)	(45.00%)
Month **12** closing price	30-06-2009	3.25	(1.75)	(35.00%)

Table 4.7 shows that the offer price of Kshs 5.00. The first day opening price was Kshs.8.00, 60% above the offer price while the closing day price was Kshs 7.35, 47.00% above the offer price. The share prices were below the offer price from the third month after listing and remained so for the period under study.

The factors likely to have affected the post IPO prices mainly was the large number of shares issued during the offer which resulted to over-supply as speculators tried to offload the shares they had acquired. The other factor likely to have influenced the share price was the information from the industry, indicating that high levels of competition from other players who had joined the telecommunication sector was certainly going to affect future profits. Also, the dividend policy affected the share prices as investors were dissatisfied with the dividends declared (ten cents per share) despite the huge profits reported by Safaricom. The economy had begun to decline due to post election violence (PEV) and the world economy was on recess. It can therefore be concluded that coupled with the effects of the 2007 general elections, Safaricom post-IPO share prices was below the offer price because the factors affecting post IPO share prices were un-favourable.

4.3.8 Co-operative Bank of Kenya limited

The Co-operative bank IPO was issued in November 2008 and was successful despite coming after the Safaricom IPO. The shares were listed and started trading on 12th December 2008.

Table 4.8 (next page) shows that the offer price of Kshs 9.50. The first day opening price was Kshs.13.50, 42.11% above the offer price while the opening day closing price was Kshs 10.45, 10.00% above the offer price. The post IPO share price was below the offer price for the period under review except during the sixth month when it rose to Kshs. 10.45 about 10% above the offer price which was due to dividends announcement.

The factors likely to have affected the post IPO prices downwards mainly was the large number of shares issued during the offer which added to the already saturated market after the Safaricom IPO earlier in the year. The economy was on recess (2008 GDP grew by 1.7%) and the banking industry is highly competitive.

Table 4.8: Co-op Bank monthly share price movement and analysis

Details	Date	Price per Share (in Kshs)	Price increase (Decrease)	Percentage Increase (Decrease)
Offer Price		9.50		
Day 1 Opening Price per share	12-12-2008	13.50	4.00	42.11%
Day 1 closing Price per share	12-12-2008	10.45	0.95	10.00%
Month **1** closing price	31-01-2009	3.15	(6.35)	(66.84%)
Month **2** closing price	28-02-2009	2.55	(6.95)	(73.16%)
Month **3** closing price	31-03-2009	3.00	(6.50)	(68.42%)
Month **4** closing price	30-04-2009	2.85	(6.65)	(70.00%)
Month **5** closing price	29-05-2009	2.75	(6.75)	(71.05%)
Month **6** closing price	30-06-2009	10.45	0.95	10.00%
Month **7** closing price	31-07-2009	9.20	(0.30)	(3.16%)
Month **8** closing price	31-08-2009	9.05	(0.45)	(4.74%)
Month **9** closing price	30-09-2009	8.40	(1.10)	(11.58%)
Month **10** closing price	30-10-2009	8.50	(1.00)	(10.53%)
Month **11** closing price	30-11-2009	9.00	(0.50)	(5.26%)
Month **12** closing price	31-12-2009	9.00	(0.50)	(5.26%)

4.4 Results and Discussions

The results of the research are presented and discussed objectivewise.

4.4.1 Effect of Information on post IPO share prices

Objective one of the research was to investigate how Information affects the company's share prices after an IPO.

A set of four questions testing on source and type of information were set for the respondents to answer. Responses to the questionnaire on whether Information affects post IPO share prices are shown below in table 4.9.

Table 4.9: Effects of Information post IPO share prices

S. No.	Affecting Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
1	Information from within the company	4	4	-	-	-	8
2	Information from outside company	2	6	-	-	-	8
3	Information about profit	6	2	-	-	-	8
4	Information about the company growth	7	-	-	-	1	8
5	**Total**	**19**	**12**	**0**	**0**	**1**	**32**
6	**Percentage**	**59.375%**	**37.50%**	**0%**	**0%**	**3.125%**	**100%**

In Table 4.9, the respondents were required to indicate whether Information about the company had an effect on post IPO share prices. From the findings (Row 6), majority of the respondents (59.375%) strongly agreed and 37.5% agreed that information affected post IPO share prices, and on overall 96.875% (59.375% + 37.50%) agreed that information affects post IPO share prices. It can therefore be concluded that the information affects post IPO share price.

Information was evaluated in two aspects, the source of information and the type of information. Row 1 shows that four out of eight (50%) of the respondents strongly agreed and another four out of eight (50%) agreed that information from within the company affects post IPO share prices. Row 2 in the same table, shows that two out of eight (25%) of the respondents strongly agreed and six out of eight (75%) agreed that information from outside the company affects post IPO share prices.

Row 3 in the table 4.9 shows that six out of eight (75%) strongly agreed while two out of eight (25%) only agreed that information on profitability affects post IPO share prices. On information about the company growth, row 4 (table 4.3.1) shows that seven out of eight (87.5%) strongly agreed that information affect post IPO share prices. However, one out of eight (12.5%) did not know if information about company growth affects post IPO share prices.

4.4.2 Economic Conditions Influence on post IPO share prices

The second Objective of the research was to examine if economic conditions influence post IPO share prices in the market. Four questions to examine the various aspects of the economy affecting share prices were set for the respondents. Responses to questionnaire on whether the economic conditions influence share prices in the market are shown below in table 4.10.

Table 4.10: The influence of the economic conditions on post IPO share prices

S. No.	Affecting Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
1	Economic conditions	1	7	-	-	-	**8**
2	Change in Economic conditions	1	6	1	-	-	**8**
3	Inflation levels	-	4	3	1	-	**8**
4	Employment levels	-	3	5	-	-	**8**
5	interest rates	2	5	1	-	-	**8**
6	**Total**	**4**	**25**	**10**	**1**	**-**	**40**
7	**Percentage**	**10.00%**	**62.50%**	**25.00%**	**5%**	**0%**	**100%**

In Table 4.10 , the respondents were required to state whether the economic conditions had an influence on post IPO share prices.

In row 7, 10% of the respondents strongly agreed while 62.5% agreed that economic conditions influenced post IPO share prices. However, 25% of the respondents disagreed and 10% strongly disagreed that economic conditions influenced post IPO share prices. It can be inferred that the economic conditions influence post IPO share price.

The effect of Economic conditions on post IPO share prices was tested on four aspects, conditions of the economic, inflation, employment and the prevailing interest rates. In row 1, one out of eight (12.5%) strongly agreed and seven out of eight (87.5%) agreed that economic conditions influence post IPO share prices. In row 2, a change in the economic conditions influenced post IPO share prices as shown by one out of eight (12.5%) who strongly agreed and six out eight (75%) who agreed. However, one out of eight (12.5%) disagreed that change in economic conditions influenced post IPO share prices. In row 3, four out of eight (50%) agreed that inflation affected post IPO share prices. Three out of eight (37.5%) disagreed and one out of eight (12.5%) strongly disagreed. In row 4, three out eight (37.5%) agreed while five out of eight (62.5%) disagreed that employment levels affect post IPO share prices. In row 5, two out of eight (25%) strongly agreed and five out of eight (62.5%) agreed that interest rates affect post IPO share prices. However, one out of eight (12.5%) disagreed that prevailing interest rates affect post IPO share prices.

4.4.3 Dividend policy influence on post IPO share prices.

The third objective of the research was to evaluate how dividend policy influences post IPO share prices. Five questions highlighting the aspects of the dividend policy were set for the respondents. Responses to the questionnaire on how dividend policy influences share prices in the market are shown in table 4.11 (next page).

Table 4.11: The influence of dividend policy on post IPO share prices

S. No.	Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
1	Clear dividend policy & practice	4	4	-	-	-	**8**
2	Re-investing all profits	3	5	-	-	-	**8**
3	Split profits for dividend & Re-investment	2	3	3	-	-	**8**
4	Pay all profits as dividends	3	3	2	-	-	**8**
5	**Total**	**12**	**15**	**5**	**0**	**0**	**32**
6	**Percentage**	**37.50%**	**46.875%**	**15.625%**	**0%**	**0%**	**100%**

In Table 4.11, the respondents were requested to state whether a company's dividend policy influence post IPO share prices. In row 6, 37.5% of the respondents strongly agreed while 46.875% agreed that dividend policy influenced post IPO share prices. However, 15.625% of the respondents disagreed. It can be inferred that dividend policy influences post IPO share price.

The influence on dividend policy was tested for understanding and the distribution of profits. Row 1, four out of eight (50%) of the respondents strongly agreed and the other four out of eight just agreed *that clear* dividend policy affect post IPO share prices. In row 2, three out of eight (37.5%) of the respondents strongly agreed while five out eight (62.5%) of the respondents agreed that re-investing all the profits affect post IPO share prices. Row 3 shows that two out eight (25%) strongly agreed and three out of eight (37.5%) agreed that splitting profits between dividends and re-investment of profit affect post IPO share prices. However, three out of eight (37.5%) disagreed.

The fourth row shows that three out of eight (37.5%) strongly agreed and three out of eight (37.5%) agreed that paying all profits as dividends affects post IPO share prices. However, two out of eight (25%) disagreed that paying all profits as dividends.

4.4.4 The effect the number of shares issued has on the post-IPO share prices.

The final objective of the study was to determine the effect that the number of shares issued has on the post-IPO share prices. Three questions relating to the number of shares issued were set for the respondents to answer. Responses to the questionnaire are shown below in table 4.12.

Table 4.12: The effect the number of shares issued has on the post-IPO share prices

S. No.	Affecting Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know	Total
1	The number of shares issued	4	1	3	-	-	**8**
2	Demand & supply of the company shares	6	2	-	-	-	**8**
3	Demand & supply of shares of related companies	1	6	1	-	-	**8**
4	**Total**	**11**	**9**	**4**	**0**	**0**	**24**
5	**Percentage**	**45.83%**	**37.5%**	**16.67%**	**0%**	**0%**	**100%**

In Table 4.12, the respondents were required to indicate whether the number of shares issued by a company affect the post IPO share prices. From the findings (row 5), 45.83% of the respondents strongly agreed and 37.5% agreed. However, 16.67% disagreed. On the overall, 83.33% (45.83%+37.50%) agreed and 16.67% disagreed and therefore it can be inferred that the number of shares issued influence post IPO share prices.

Number of shares issued was tested for the quantity of shares issued, demand and supply of the company shares and those of related companies. Row 1 in table 4.12, shows that four out of eight (50%) of the respondents strongly agreed, one out of eight (12.5%) agreed and three out of eight (37.5%) disagreed that the number of shares issued affects post IPO share price. Row 2 shows that six out of eight (75%) of the respondents strongly agreed and two out of eight (25%) agreed that demand for the company shares affects post IPO share prices. Row 3 shows that one out of eight (12.5%) strongly agreed, six out of eight (75%) agreed and one out of eight (12.5%) disagreed.

4.4.5 Comparison of the factors affecting post IPO share prices

The results of the responses can be further summarised to show how the factors were preferred by the respondents. ' Strongly agree' and 'Agree' are combined together while 'Strongly disagree' a nd 'Disagree' are added together. 'Do not know' is shown alone because it is a neutral position.

Table 4.13: Summary of factors effecting share prices

S. No.	Factor Affecting share price	Agreed	Disagreed	Do not know	Total
1	Information about the company	96.875%	0%	3.125%	100%
2	The economic conditions	72.50%	27.50%	0%	100%
3	The dividend policy	84.375%	15.625%	0%	100%
4	The number of shares issued	96.87%	0%	3.23%	100%
5	**Total**	**350.62%**	**43.125%**	**6.255%**	**400%**
6	**Average score**	**87.67%**	**10.78%**	**1.56%**	**100%**

From table 4.13 below (row 6), a total of 87.66% agreed while a total of 10.78% disagreed that the given factors affected post IPO share price.

However, 1.56% of the respondents did not know whether the given factors affected post IPO share prices. Therefore, information and news about the company (row 1) and the number of shares issued (row 4) have the greatest effect on post-IPO share prices (96.87%), followed by the dividend policy (row 3) with 84.37% support, followed by the economic conditions (row 2) with a support of 72.50%.

4.4.6 Other factors that affect post IPO share prices in the market

The respondents to the questionnaires were requested to list other factors that from their experience and knowledge, affect post IPO share prices in the stock market. The respondents stated the following as factors that also affect post IPO share prices.

- Political conditions in the country such general elections, political party unions and constitutional changes.
- Market speculators in stock market and the role of first time participants in the stock market.
- Government regulation and control of the stock market.
- Development level of the market in terms of efficiency and adoption of technology.
- Public awareness of the stock market.
- Global economy and stock market trends and performance.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary of the data analysis and draws conclusions on the same. It also gives recommendations and suggestions for further research.

5.2 Summary of Findings

This was a case study that sought to establish the factors that affect post IPO share prices. The population consisted of all the companies which issued and listed their shares at the Nairobi Stock Exchange between 2001 and 2010.

The study was carried out in order:

(i) To investigate how Information and news affect the share prices in the market after IPO.

(ii) To examine how economic conditions influence post IPO share prices in the market.

(iii) To evaluate how dividend policy influence post IPO share prices.

(iv) To determine the effect the number of shares issued has on the post-IPO share prices.

Findings of the study show that:

- Information about the company affects post-IPO share prices in the market.
- Economic conditions influences post IPO share prices.
- Dividend policy influences post IPO share prices.
- The number of shares offered during the IPO greatly affects the post IPO share prices

The study also identified the following additional factors that also affect post IPO share prices:

- Political conditions in the country such general elections, political party unions and constitutional changes.
- Market speculators in stock market and the role of first time buyers.
- Government regulation and control of the stock market.
- Development level of the market in terms of efficiency, adoption of technology and independence.
- Public awareness of the stock market.
- Global stock trends and performance.

5.3 Conclusions of the study

This study having examined the eight IPOs issued between 2000 and 2010, found that post IPO share prices were affected by different factors. The factors researched received high support from the respondents and can be ranked by the respondents support as follows; the effect by number of shares issued has on the post-IPO share prices (96.87%); Information about the company (96.83%); Dividend policy influence on share prices (84.38%); and the economic conditions influence on share prices in the market (72.5%).

The number of shares issued during the IPO plays a critical role in determining the post IPO share prices. IPOs offering few shares tend to have the post IPO share prices higher than the offer price while those with large number of issues offered tend to have the post IPO share prices lower than the offer price. The number of shares issued during the IPO plays an important role in determining the company's post IPO share prices.

Information from within or outside the company is taken up by investors and they react to the information by selling or buying the shares hence influencing the share prices. Post IPO share prices may rise when 'good' news is released to the public. However, unfavourable news can cause post IPO share price to reduce.

Dividend policy is influential on the post IPO share prices. Dividend announcements are associated with share price increasing to include the dividend in the share price. However, dividends that are below the investor expectations cause the share prices to reduce as the market is usually over supplied with shares as investors divest form the company shares.

The economic conditions influence on share prices in the market is also an important affecting post IPO share prices. The respondents gave this factor the least support and also the IPOs studied seemed to give contradicting post IPO price movements in relation to the economic conditions. On overall, favourable economic conditions positively influenced share prices while unfavourable economic conditions negatively affect post IPO share prices.

5.4 Recommendations

The study makes the following recommendations:

5.4.1 Company information

Listed companies and companies intending to issue IPOs should ensure that the company information going out to the public is evaluated to give the right signals to investors. Information from outside the company likely to give a wrong impression of the company should be countered by the company with the intention of conveying the right information of the company and therefore avoid negative effect on post IPO share prices.

5.4.2 Economic conditions

Companies intending to issue IPOs should evaluate the economic conditions and try to issue shares when the economic conditions are favourable. This can increase the chances of post IPO share prices performing well.

5.4.3 Dividend policy

Companies' dividend policy should be followed consistently to ensure predictability of future dividends by investors. This will also ensure that investors are satisfied and thus avoid mass exodus of investors which results in over-supply of the company shares hence reducing the post IPO share prices.

5.4.4 The number of share issued

Companies intending to issue IPOs should evaluate the stock market capabilities and issue th e number of shares that the market can absorb and accommodate. Very large number of shares negatively affects the post IPO share prices. Companies listed in the stock market which issued a large number of shares should consider buying back some of the shares in order to improve the share price in the market.

5.5 Suggestions for further research

The study covered the eight firms that issued IPOs between January 2001 and December 2010. It is recommended that a study be carried out on all the IPOs issued since the inception of the NSE to provide more comprehensive evidence on the factors affecting post IPO share prices in the Nairobi Stock Exchange.

Further research can be carried out to establish the reasons why few IPOs are issued in Kenya and how companies can be encouraged to list in the stock market.

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Appendix 1

Companies listed at the NSE as at December 2010

MAIN INVESTMENT MARKET SEGMENT (MIMS)

Agriculture

1. Rea Vipingo Ltd.
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

1. Access Kenya Group
2. Marshalls E.A. Ltd.
3. Car & General Ltd.
4. Hutchings Biemer Ltd. (Suspended)
5. Kenya Airways Ltd.
6. CMC Holdings Ltd.
7. Uchumi Supermarkets Ltd. (Suspended)
8. Nation Media Group Ltd.
9. TPS (Serena) Ltd.
10. Scan Group Ltd.
11. Standard Group Ltd.
12. Safaricom Ltd.

Finance and Investment

1. Barclays Bank of Kenya Ltd.
2. CFC Stanbic Bank Ltd.
3. Housing Finance Ltd.
4. Centum Investment Ltd.
5. Kenya Commercial Bank Ltd.
6. National Bank of Kenya Ltd.
7. Pan Africa Insurance Holdings Co. Ltd
8. Diamond Trust Bank of Kenya Ltd.
9. Jubilee Insurance Co. Ltd
10. Standard Chartered Bank Ltd.
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
14. The Co-operative Bank of Kenya Ltd.
15. Kenya Re-Insurance Ltd.

Industrial and Allied

1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
3. British American Tobacco Kenya Ltd.
4. Carbacid Investments Ltd.
5. E.A. Cables Ltd.

6. E.A. Breweries Ltd.
7. Sameer Africa Ltd.
8. Kenya Oil Ltd.
9. Mumias Sugar Company Ltd.
10. Unga Group Ltd.
11. Bamburi Cement Ltd.
12. Crown berger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
14. Kenya Power & Lighting Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengen Ltd.

Alternative Investments Markets Segments (AIMS)

1. A. Baumann and Company Limited
2. City trust Limited
3. Eaagads Limited
4. Express Kenya Limited
5. Kapchorua Tea Co. Limited
6. Kenya Orchards
7. Williamson Tea Kenya Limited
8. Limuru Tea Company Limited

Appendix 2

LIST OF COMPANIES LISTED FROM 2001 TO 2010

NO.	COMPANY	YEAR LISTED	Offer price (Kshs)
1	Mumias sugar company Limited	September, 2001	6.25
2	Kenya electricity generating company Limited	April, 2006	11.90
3	Scan group Limited	June, 2006	10.45
4	Eveready East Africa Limited	August, 2006	9.50
5	Access Kenya group Limited	March, 2007	10.00
6	Kenya Re-insurance Corporation	July, 2007	9.50
7	Safaricom Limited	April, 2008	5.00
8	Co-operative Bank of Kenya Limited	November, 2008	9.50

APPENDIX 3: REAL GDP GROWTH 2001 – 2010

YEAR	% REAL GDP GROWTH
2001	1.2
2002	1.2
2003	3.0
2004	4.9
2005	5.8
2006	6.1
2007	7.0
2008	7.0
2009	1.7
2010	2.6

APPENDIX 4: LETTER TO RESPONDENTS

Cornelius M. Muthiani

P.o. Box 57510-00200

Nairobi, Kenya.

Date:

RE: REQUEST FOR INFORMATION FOR RESEARCH PROJECT

As a partial fulfillment for award of an MBA (Executive) degree, I am carrying out a research project on the various factors affecting post-IPO share prices in Kenya.

Given that your organization's initial public offer (IPO) took place between January 2000 and 2010, I believe that you have vital information relevant to my research project. I kindly therefore request your assistance by filling in the questionnaire attached herewith and I will collect it personally one week from today.

I look forward to your very vital response.

Yours Sincerely,

Cornelius M. Muthiani

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]   Do not know [ ]

(d) Company growth has great impact on the share prices after IPO in the stock market. Company growth relates to acquisition of new companies, launching of new products/services and diversification of sources of revenue.

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]   Do not know [ ]

2. **Prevailing Economic Conditions**

(a) The prevailing economic condition in the country influences the share prices in the stock market after initial public offer. Economic conditions refer to recess, recovery, boom or slump.

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]   Do not know [ ]

(b) Change in economic conditions causes Post-IPO share prices to change.

Strongly Agree [ ]   Agree [ ]   Disagree [ ]   Strongly Disagree [ ]   Do not know [ ]

(c) Inflation levels in the country have an effect on the share prices after listing in the stock market.

APPENDIX 5: QUESTIONNAIRE

FACTORS AFFECTING POST-IPO SHARE PRICES IN KENYA

PART I: COMPANY - DATA

1. Name of the company: ....
2. Company Address: ....
3. Position held by respondent: ....
4. The month and year the company was listed in the NSE: ....

PART II: SPECIFIC FACTORS

1. Information/news about the company

(a) Information from within the company affects Post-IPO share prices in the NSE.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(b) Information about the company from outside the company influences Post-IPO share prices in the NSE.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(c) Information about profits or losses by the company has an impact on Post-IPO share prices. Profit or loss information refers to the current profits, past profits and the projected future profits.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(d) Employment levels in the country are an important factor affecting post-IPO share prices.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(e) Interest rates prevailing in the market have an impact on the share prices after listing in the stock market.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

3. Company dividend policy and practice

(a) A company with clear dividend policy and practice affect its share prices after Initial public offering.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(b) Management decisions to reinvest all the profits in projects likely to earn the company more profits will affect the post-IPO share prices.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(c) Management decisions to split profits between profitable projects and paying some dividends affect the post-IPO share prices.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(d) Paying all the profits as dividends influence share prices after initial public offering.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

4. **The number of shares issued by the company**

(a) The number of shares issued by the company determines the Post-IPO share price.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(b) Demand and supply for the company shares is important in determining the share price after the company is listed in the stock market.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

(c) Demand and supply of the shares of other companies in the same industry affect the post-IPO share prices of the company.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ] Do not know [ ]

PART III: OTHER FACTORS

In your opinion and experience, what other factors affect post-IPO share prices in Kenya?

1.____

2.____

3.____

4.____

5.____

6.____

7.____

8. ____