International Research Journal Of Economics and Finance

Vol 6, Issue 1, pp 41-55, March 30, 2024, © International Research Journal Publishers, ISSN 2710-2742 (online) www.irjp.org

PROFITABILITY AND MARKET PERFORMANCE OF STOCKS OF LISTED NON-FINANCIAL COMPANIES IN KENYA

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Accepted March, 27th, 2024

Abstract

The market performance of stocks influence investment decision of investors, investors invest in stocks which have high return and are highly liquid. Existing literature is inconclusive whether financial indicators have an effect on market performance of stocks of listed companies. This study was to determine whether profitability has an effect on market performance of stocks of listed non-financial companies in Kenya. The specific objectives of the study were to determine the effect of profitability on market performance of stocks of listed non-financial companies in Kenya and to assess the moderating effect of size on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya. The study was carried out in non-financial companies listed in the NSE from 2016 to 2021. The study used longitudinal descriptive research design. The study was a census study. The study used secondary data from the company annual audited financial reports and Nairobi Stock Exchange. A fixed effects panel regression model was used to determine the relationship between the study variables. Descriptive analysis and inferential statistics were used in the analysis. The study findings were that profitability, has a positive and significant effect on market performance of stocks of listed non-financial companies in Kenya. Finally, the study finding found that firm size has a positive moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya. The study recommends that investor who want to invest in stocks with high return and high liquidity they should consider profitability in their investment decisions.

Keywords: *Profitability, Firm Size, Market Performance, Stocks*

INTRODUCTION

The objective of a financial statement is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions i.e. decision usefulness is the objective of financial reporting (Australian Accounting Standards Board [AASB], 2018). Financial ratios calculated from financial statement data are used as indicator of financial soundness of a company (International Monetary Fund [IMF], 2006).

Shareholders and investors are supposed to know the factors that affect market performance of stocks of listed companies. Sufficient knowledge of factors that influences market performance of stocks will go a long way in improving investment decisions (Ghasempour &

Ghasempour, 2013). Stock liquidity and stock return are used as indicators of market performance of stock (IMF, 2006). Higher market performance in terms of higher stock return will drive an investor to invest in a company as investor invest in anticipation of higher return (Anwaar, 2016). It is imperative to use information from the company financial statement in order to understand the financial indicators which drive stock market performance. This will lead investors to gain consistent returns in the stock market (Wijaya, 2015). Determining the characteristic of a firm which affect stock liquidity can improve decision making of investors (Niloofar & Saied, 2015). It imperative to know which type of financial information should be given to help user make decision and the factors which are appropriate for coming up with decision making models.

The ability of financial statement information to capture information that affects share value is referred to as value relevance, (Aveh &Vitor, 2017). The relationship between stock return, earnings and cash flow is of great importance since it directly addresses the issue of whether accounting data provides value relevance information. The empirical evidence to date has documented low explanatory power for earnings and inconclusive incremental information content for cash flows (Allan & Peta, 2000).

In Indonesia, Ndruru (2023) revealed that the current ratio, debt-to-equity ratio and total asset turnover ratio have no effect on stock returns in the manufacturing companies in the basic and chemical industrial sectors. In the UK, Anwaar (2016) showed that net profit margin, return on assets has a significant positive impact on stock returns while earnings per share has got a significant negative impact on stock return while return on equity and quick ratio show insignificant impact on stock returns. Kabajeh, Nuaimat and Dahmash (2012) found a positive relationship between return on asset, return on equity and return on investment ratios together with Jordanian insurance public companies' share prices. The results also showed a positive but low relationship between each of return on asset ratio separately and return on investment ratio separately with Jordanian insurance public companies share prices. The findings however showed no relationship between return on equity ratio separately with Jordanian insurance public companies share prices.

Innocent, Ibanichuka and Micah (2020) established a significant relationship between accounting information and stock prices of the listed companies. Accounting information has a significant effect on the market value of listed firms in Nigeria. Aveh and Vitor (2017) examined the influence of firm specific determinants of stock prices for firms listed in the Ghana stock exchange from 2008 to 2014. The study revealed a positive and significant relationship between return on equity, earning per share, book market value and market capitalization with share price, while a significant negative relationship was found between the market price of shares and dividend yield.

In Kenya, public companies trade their security in the NSE which was incorporated in 1954 but trading started 1920, its one of the members of forming the EAC securities market. The NSE serves as the bourse; it recently demutualised and listed itself. Kenya capital market is the largest and most visible in East Africa and the third-largest in Sub-Saharan Africa, after Nigeria and South Africa (CMA, 2016).

The listed companies in the NSE are divided into Agricultural, Automobile and Accessories, Banking, Commercial and Services, Construction and Allied, Energy and petroleum, Insurance, Investment, Investment services, Manufacturing and Allied and Telecommunication and Technology. The Indices are NSE all share index, NSE 20 Share index, NSE 25 share, ETF in Units-Total Deals, ETF Turnover in Kshs, FTSE NSE Kenya 15

index, FTSE NSE 25 Index, FTSE NSE Kenya Government Bond Index and FTSE ASEA pan African Index. The two mains domestically created indices that track Kenyan stocks are NSE all share index and NSE 20. The NSE all share index is a market capitalization-weighted index of all equities, whereas the NSE 20 is a more exclusive measure of larger and more liquid counters. Members of this NSE 20 are based on weighted market performance with factors including market capitalization and several liquidity measures (Oxford, 2014).

Statement of the Problem

Investors often suffer loss of investing because they do not know how various factors affect market performance of stocks of listed companies (Talamati & Pangemanan, 2015). Financial indicators are among the variables associated with market performance of stocks. Theoretically, its expected investors will invest in companies with impressive financial indicators as they are perceived to have a higher stock market performance (Kahyani, Pooya & Moravej, 2016). It's not clear whether the stocks of good companies are the best investment, good companies have good stock is a representative error (Nosfinger, 2008 as cited by Ndegwa & Mboya, 2013).

In Kenya there was a slight decline in the Nairobi Securities Exchange All-Share index in the year 2015.The equity index peaked at 176.82 in February before ending September at 146.92, down 10% from where it started in year. In the year 2016 The NSE All share Index started at 145.7 but dropped by 6.14% by the end of the year to reach 136.74. It continued its downward trend in 2017 posting 130.51 at the beginning of April this was despite the strong financial performance of several important sectors (Oxford 2016&2017).

Literature provides conflicting findings on effect of financial indicators on market performance of equity securities of listed companies. Some studies found out a positive effect (Ali, 2016; Njoki,2014; Umar&Sun,2016). Other studies found negative effect (BenKhediri & Daadaa,2011; Lipson & Mortal,2009; Salamat & Mustafa,2016) while others found no significant effect exists (Gharaibeh,2014; Ghasempour & Ghasempour,2013; Nassar,2016). From the above literature it's not clear on the effect of financial indicators on the market performance of stocks and the question still remains what is the actual effect? Besides confounding literature, it is not clear if and how size moderates the effect of financial indicators on market performance of stocks of listed companies. The previous studies did not consider size as the moderating variable (Allozi & Obeidat,2016; Anwaar,2016; BenKhediri & Daadaa,2011; Marks & Shang, 2017; Ndegwa & Mboya,2013; Umar & Sun, 2016).

Evidence from elsewhere may be different from Kenya because of fundamental differences, The NSE tend to be a small market, undercapitalized with few listed companies compared to developed and other emerging market in China, Taiwan, Russia, Brazil and Nigeria which are highly capitalized, more efficiency, highly liquid, high trading volumes, more number of listed companies and highly Automated. Also, Kenya's GDP and economy are small compared to other emerging markets. These fundamental differences may make the findings to be different from Kenya's.

Research Objectives

i. To determine the effect of profitability on market performance of stocks of listed non-financial companies in Kenya.
ii. To assess the moderating effect of size on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya.

Research Hypothesis

The null hypotheses of the study were:

H_{01}: Profitability has no significant effect on market performance of stocks of listed non-financial companies in Kenya.

H_{02}: Size has no moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya.

LITERATURE REVIEW

Theoretical Framework

Efficient Market Hypothesis

The efficient market hypothesis was developed by Fama (1970) it asserts that prices of security fully reflect all available information; financial indicators of the company should be fully and instantly reflected in the securities prices. When a company release it financial statements its sending information to the market about it financial soundness and healthiness through its financial indicators i.e. profitability, capital structure, liquidity and cash flow which is then fully and instantly incorporated in company securities prices affecting trading and therefore affecting the market performance of its equity securities positively or negatively depending on how the financial indicators released sounds.

In an efficient market when information arises, the news spread very quickly and is incorporated into the prices of securities without delay. Thus neither technical analysis which is the study of past stock prices in an attempt to predict future stock prices nor even fundamental analysis which is the analysis of financial information such as company earnings and assets values would enable an investor to achieve returns greater than those that could be obtained by holding a randomly selected portfolio of individual stocks at least not with comparable risk, (Malkiel,2003).The release of financial information instantly become incorporated in company securities prices, which will then affect the trading of company securities and therefore influencing market performance of stocks. Security price can adjust positively or negatively depending on the information released (Abigayle & Opoku, 2013).

Conceptual Framework

A conceptual framework is a diagrammatic representation of the study variables showing their relationship. The independent variable is profitability and the dependent variable was market performance of stocks trading in the NSE in Kenya. The moderating variable was the company size.

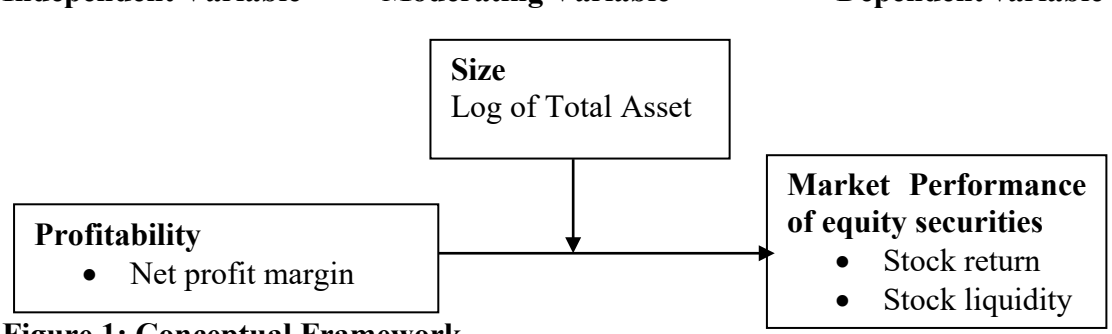

Figure 1: Conceptual Framework

Empirical Literature

Har and Ghafar (2015) examined the impact of accounting earnings on stock returns for plantation companies listed in the main board of Bursa Malaysia in two economic periods which were distinct, prior to 2004-2006 and during 2007-2008 an economic recession. The objective of the study was to examine the effect of return on asset, return on equity and return on capital employed on stock return. The study employed secondary data. Simple linear

regression was used in analyzing the data. The result was that return on equity had the highest explanatory power in explaining the variation in stock returns, return on asset and return on capital employed had a positive and significant relationship to stock returns only during the economic period prior to a recession.

Cakici, Chan and Topyan (2015) analyzed predictability of stock returns for stocks listed in both the Shanghai and Shenzhen stock exchange in China from January 1994 to March 2011.The objective of the study was to examine cross-sectional stock returns. The study employed secondary data, the study used both portfolio and cross-sectional regression methods. The result was that size, price the book to market ratio, the cash-flow ratio and the earnings to price ratio have strong predictive power on stock returns. Total and idiosyncratic volatility also had predictive powers on stock return. Momentum was not a useful predictor according to both portfolio and simple regression methods but when used with other predictors in multiple regression methods it showed predictive powers for all stocks including large stocks.

Heryanto (2016) examined the effect of liquidity and profitability on stock return of banks listed in Indonesia stock exchange for the period 2009 to 2010 for a sample of 29 banks. The objective of the study was to examine the impact of profitability on stock return. The study used multiple linear regression analysis. Secondary data was obtained from annual financial statements and monthly individual stock price. The result of the study was that profitability has significant impact on market performance as measured by stock return.

Ghasempour and Ghasempour (2013) examined the relationship between operation financial ratio and abnormal stock return for firm listed in the Tehran stock exchange in Iran for the period 2000 to 2008. The objective of the study was to investigate the effect of financial ratios on abnormal stock return. The study used correlation and descriptive survey research. The result of the study was there was significant relationship between return on asset, changes in return on assets and changes in net profit on abnormal stock return while there was not any significant relationship between ratio of accrual and abnormal stock return.

Nassar (2016) investigated the factors affecting share liquidity of companies listed on Istanbul stock exchange in Turkey from 2005 to 2012 for 199 industrial companies. The objective of the study was to examine the factors affecting share liquidity of companies. Regression analysis model was employed, the study employed secondary data which was collected from online sources. The result was that return on equity and earnings per share had a negative insignificant relationship with stock liquidity while return on assets had positive significant relationship with stock liquidity.

Haghiri and Haghiri (2012) investigated whether the news and information obtained from companies' financial reports have an effect on shares return for companies listed in Tehran stock exchange for 120 manufacturing companies for the period 2003 to 2008. The study objective was to investigate the effects of return on assets ratio and return on equity ratio on stock return. The hypotheses were tested using multivariable regression patterns and delaying variable models at two general and separated by industry levels. The results showed at general level return on equity and return on asset are effective on stock return. In the separated by industry levels the results of return on equity and return on asset are different on stock returns for each industry.

Kahyani *et al*.(2016) examined the effect of firm performance on market performance for companies listed in the Tehran stock exchange in Iran for the period 2010 to 2014. The sample was 111 Companies. The objective of the study was to examine the effect of firm

performance on stock liquidity. The study employed a multivariate regression model. Size was used as the control variable. The study found that size does not affect stock liquidity when used as a control variable.

Alnaif (2014) investigated and examined the factors affecting stock liquidity for firm listed in the Amman stock exchange (ASE) Index in Jordan from 2011 to 2013 for 100 firms. The objective was to determine the effect of firm size on stock liquidity. The study employed fixed effects regression model. The study finding was that size has a significant positive impact on stock liquidity.

METHODOLOGY

Research Design

A Research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The study employed a longitudinal descriptive research design to determine how profitability influences the market performance of stocks of listed non-financial companies in Kenya. Longitudinal study involves the collection of data for the same subject repeatedly over a period of time (Rouse, 2013).

Target Population

The population for this study consisted of non-financial companies listed in Kenya within the period 2016 to 2021.

Sampling

The study was a census study; a census study is preferred when the population is small (Mugenda &Mugenda, 2003). In a census study, all members of the population participate in the study data collection process (Kothari, 2004).

Data Collection Procedures

The study used secondary data. Secondary data was collected from audited annual financial statements of the listed non-financial companies in Kenya. The financial statements were extracted from the company's website. Information about company securities was obtained from the NSE. The data was then entered in data collection sheets.

Data Analysis

The study used a panel data regression model to draw inferences from the secondary data. Panel data model is used when the data is panel data or longitudinal. Panel data is when same individuals are observed repeatedly over time.

The regression model that was employed in this study was:

$SR_{it}=\alpha_i+ \beta_1 P_{it,} + \varepsilon_{it}$……..... (1a)

$SL_{it} = \alpha_i + \beta_1 P_{it,} + \varepsilon_{it}$……..... (1b)

Where:

SR_{it} = Stock return

SL_{it} =Stock liquidity

α_i = Intercept

β_1 = Coefficient of the independent variable

P_i= Profitability firm i in time t

ε_{it} = Error term in the model for given variables

The Moderating models that were employed in this study were:

$SR_{it} = \alpha_i + \beta_1 P_{it,} + (\beta_{2,} M) + \varepsilon_{it}$……..... (1a)

$SR_{it} = \alpha_i + \beta_1 P_{it,} + (\beta_{2,} M) + \varepsilon_{it}$……..... (1b)

Where:

SR_{it} = Stock return
SL_{it} =Stock liquidity
P_{it}=Profitability
M=Moderating variable
t= 2016….2021

Descriptive statistics was used to summarize the basis features of the data collected. The Statistical Package for Social Sciences (SPSS) was used for descriptive analysis. Descriptive statistics that were employed were mean, standard deviation, minimum, maximum, skewness and kurtosis.

FINDINGS AND DISCUSSIONS

Descriptive Statistics

This section presents the descriptive analysis of the data. The descriptive analysis includes the mean and standard deviation. The skewness and Kurtosis of the data are also presented in the descriptive statistics.

Table 1: Descriptive statistics of variables

	N	Min	Max	Mean	Std. Dev	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
Profitability	180	-2.642	1.505	0.005	0.434	-1.698	0.181	1.038	0.360
Size	180	4.896	8.616	6.866	0.839	0.021	0.181	-0.071	0.360
Stock return	180	-0.483	1.093	-0.027	0.192	1.707	0.181	0.184	0.360
Stock liquidity	180	0.000	0.110	0.011	0.015	2.140	0.181	1.604	0.360

Table 1 presents the findings for the mean for profitability of listed non-financial companies in Kenya as 0.005. This suggests that the average profitability of listed non-financial companies in Kenya is 0.5%. The findings further reveal a standard deviation of 0.434. Standard deviation is a measure of how the data is dispersed in relation to the mean. A low standard deviation indicates data are clustered around the mean and a high standard deviation indicates data are more spread out. Profitability was more clustered around the mean.

Skewness reveals the degree to which a frequency distribution deviates away from normal distribution. The acceptable value of skewness falls between -3 and +3 and kurtosis is appropriate from a range of -10 to +10 (Brown, 2006). Hair et al. (2010) defined normal data as having skewness between -2 and +2 and kurtosis between -7 and +7. Table 1 further revealed a skewness of -1.698 with reference to profitability frequency distribution. This indicates that the frequency distribution for profitability of listed non-financial companies in Kenya falls within the normal distribution. Furthermore, a kurtosis statistic of 1.038 is revealed for profitability which indicates it falls within the normal distribution.

According to the findings presented in Table 1, firm size had an average of 6.866. This suggests that the firm size for listed non-financial companies in Kenya is 686.6%. Findings further revealed a standard deviation of 0.839, this suggests size is clustered around the mean. Table 1 further revealed that the skewness for firm size was 0.021. This suggests that the frequency distribution for firm size of listed non-financial companies in Kenya falls within the normal distribution. The skewness results are furthermore affirmed by the kurtosis results which reveal a statistic of -0.071 which also falls within the normal distribution.

From the findings presented in Table 1, the mean of stock return of stocks of listed non-financial companies in Kenya was -0.027 with a standard deviation of 0.192. This suggests that the average stock return of stocks of listed non-financial companies in Kenya is 2.7%. In addition, the standard deviation indicates stock return is clustered around the mean. Table 1 further revealed a skewness of 1.707 for stock return frequency distribution. This suggests that the frequency distribution for stock return of stocks of listed non-financial companies in Kenya falls within the normal distribution. The skewness results are furthermore affirmed by the kurtosis results which reveal a statistic of 0.184 which also falls within the normal distribution.

From the findings presented in Table 1, the mean for stock liquidity of stocks of listed non-financial companies in Kenya was 0.011 with a standard deviation of 0.015. This suggests that the average stock liquidity of stocks of listed non-financial companies in Kenya is 1.1%. In addition, the standard deviation results indicate stock liquidity is clustered around the mean. Table 1 further revealed a skewness of 2.140 for stock liquidity frequency distribution. This suggests that the frequency distribution for stock liquidity of stocks of listed non-financial companies in Kenya falls within the normal distribution. The skewness results are furthermore affirmed by the kurtosis results which reveal a statistic of 1.604 which also falls within the normal distribution.

Correlation Analysis

Table 2: Correlation analysis between financial indicators and stock return

	stock return	profitability
stockreturn	1.0000	
	180	
profitability	0.3429	1.0000
	0.0000	
	180	180

*. Correlation is significant at the 0.05 level (2-tailed)

The findings in Table 2 showed that profitability had a positive and significant relationship with stock return (r=0.3429, p=0.0000), capital structure had a positive and significant relationship with stock return (r=0.1808, p=0.0151), liquidity had a positive and significant relationship with stock return (r=0.2059, p=0.0056) and cash flow had a positive and significant relationship with stock return (r=0.3915, p=0.0000).

Table 2: Correlation analysis between financial indicators and stock liquidity

	stockliquidity	profitability
stockliquidity	1.0000	
	180	
profitability	0.1235	1.0000
	0.0086	
	180	180

*. Correlation is significant at the 0.05 level (2-tailed)

The findings in Table 3 showed that profitability had a positive and significant relationship with stock liquidity (r=0.1235, p=0.0086), capital structure had a positive and significant relationship with stock liquidity (r=0.4128, p=0.0000), liquidity had a positive and significant relationship with stock liquidity (r=0.0286, p=0.0035) and cash flow had a positive and significant relationship with stock liquidity (r=0.2116, p=0.0043).

Bivariate results

Bivariate panel regression analysis for the panel data was conducted to assess the relationship between profitability and stock market performance as measured by stock return and stock liquidity. Bivariate analyses are conducted to determine whether a statistical association exists between two variables, the degree of association if one does exist and whether one variable may be predicted from another (Sandilands, 2014).

The study conducted a panel data regression to assess the relationship between profitability and stock return.

Table 4: Panel model for the relationship between profitability and stock return

```
------------------------------------------------------------------------------
Fixed-effects (within) regression               Number of obs      =       180
Group variable: panels                          Number of groups   =        30

R-sq:  within  = 0.0934                         Obs per group: min =         6
       between = 0.2394                                        avg =       6.0
       overall = 0.1176                         max                =         6

                                                F(1,149)           =     15.34
corr(u_i, Xb)  = -0.0687                        Prob > F           =    0.0001

------------------------------------------------------------------------------
 stockreturn |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
profitability |   .2018595   .0515334     3.92   0.000     .1000289    .3036901
       _cons |  -.0036731    .006569    -0.56   0.577    -.0166535    .0093073
-------------+----------------------------------------------------------------
     sigma_u |  .02279112
     sigma_e |  .05872132
         rho |  .13091834   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Table 4 reveal an R square value of 0.1176 which implies that 11.76% of variation in stock return of stocks of listed non-financial companies in Kenya is explained by profitability. The beta coefficient with reference to the influence of profitability on stock return of stocks of listed non-financial companies in Kenya was 0.2018595. This implies that a unit change in profitability will cause an increase of 0.2018595 in the stock return of stocks of listed non-financial companies in Kenya.

Table 4 further reveals a t value of 3.92 with a p-value of 0.000 which is less than the significance level of 0.05. A p-value of less than 0.05 implies that the null hypothesis should be rejected. The null hypothesis was; H_{01}: Profitability has no significant influence on market performance of stocks of listed non-financial companies in Kenya. Thus we reject the null hypothesis. This suggests that profitability has a significant influence on the market performance of stocks of listed non-financial companies in Kenya as measured by stock return.

Table 5: Moderated Effect of Profitability on Stock Return

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------------------------------------------------------------------------------
Fixed-effects (within) regression               Number of obs      =       180
Group variable: panels                          Number of groups   =        30

R-sq:  within  = 0.0974                         Obs per group: min =         6
       between = 0.2908                                        avg =       6.0
       overall = 0.1304                                        max =         6

                                                F(1,149)           =     16.08
corr(u_i, Xb)  = -0.0359                        Prob > F           =    0.0001

------------------------------------------------------------------------------
    stockreturn |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
----------------+-------------------------------------------------------------
Profitability mod|  .0294797    .0073524     4.01   0.000     .0149513    .0440081
          _cons |  -.0037232   .0064878    -0.57   0.567    -.0165432    .0090968
----------------+-------------------------------------------------------------
        sigma_u |  .02191908
        sigma_e |  .05859077
            rho |  .12277183   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

A moderated multivariate panel regression was done between profitability and stock return with firm size being the moderator. The findings revealed a Prob > Chi2 value of 0.000 which suggests that firm size has a moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya. Consequently, the null hypothesis that firm size has no moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya is rejected.

Bivariate Effect of Profitability on Stock Liquidity

The study conducted a panel data regression to assess the relationship between profitability and stock liquidity.

Table 6: Panel model for the relationship between profitability and stock liquidity

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------------------------------------------------------------------------------
Fixed-effects (within) regression               Number of obs      =       180
Group variable: panels                          Number of groups   =        30

R-sq:  within  = 0.0381                         Obs per group: min =         6
       between = 0.0000                                        avg =       6.0
       overall = 0.0153                                        max =         6

                                                F(1,149)           =      5.90
corr(u_i, Xb)  = -0.1560                        Prob > F           =    0.0163

------------------------------------------------------------------------------
stockliquidity |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
---------------+--------------------------------------------------------------
profitability |   .1110724   .045714     2.43   0.016     .0207409    .201404
        _cons |   .0283642   .0058272    4.87   0.000     .0168496    .0398788
--------------+---------------------------------------------------------------
      sigma_u |  .0343563
      sigma_e |  .0520903
          rho |  .30314069   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Table 6 reveal an R square value of 0.0153 which implies that 1.53% of variation in stock liquidity of stocks of listed non-financial companies in Kenya is explained by profitability.

The beta coefficient with reference to the influence of profitability on stock liquidity of stocks of listed non-financial companies in Kenya was 0.1110724. This implies that a unit change in profitability will cause an increase of 0.1110724 in stock liquidity of stocks of listed non-financial companies in Kenya.

Table 6 further reveals a t value of 2.43 with a p- value of 0.016 which is less than the significance level of 0.05. A p-value of less than 0.05 implies that the null hypothesis should be rejected. The null hypothesis was; H_{01}: Profitability has no significant influence on market performance of stocks of listed non-financial companies in Kenya. Thus we reject the null hypothesis. This suggests that profitability has a significant influence on market performance of stocks of listed non-financial companies in Kenya as measured by stock liquidity.

Table 7: Moderated Effect of Profitability on Stock Liquidity

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------------------------------------------------------------------------------
Fixed-effects (within) regression               Number of obs      =       180
Group variable: panels                          Number of groups   =        30

R-sq:  within  = 0.0382                         Obs per group: min =         6
       between = 0.0039                                        avg =       6.0
       overall = 0.0213                                        max =         6

                                                F(1,149)           =      5.92
corr(u_i, Xb)  = -0.1176                        Prob > F           =    0.0161

------------------------------------------------------------------------------
 stockliquidity |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
----------------+-------------------------------------------------------------
Profitabilitymod |   .0159087   .0065362     2.43   0.016     .0029931    .0288243
          _cons |   .0285405   .0057676     4.95   0.000     .0171436    .0399374
----------------+-------------------------------------------------------------
        sigma_u |  .03386215
        sigma_e |  .05208686
            rho |  .29708248   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

A moderated multivariate panel regression was done between profitability and stock liquidity with firm size being the moderator. The findings revealed a Prob > Chi2 value of 0.016 which suggests that firm size has a moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya. Consequently, the null hypothesis that firm size has no moderating effect on the relationship between profitability and market performance of stocks of listed non-financial companies in Kenya is rejected.

Discussion of Findings

The analysis showed that profitability had a positive and significant relationship with stock return. The findings are in agreement with Anwaar (2016) who examined the impact of firm performance on stock return from listed companies of FTSE-100 index London stock exchange in the UK over the period 2005 to 2014, for a sample of 30 firms. The study findings showed that net profit margin has a significant positive impact on stock returns. The finding contradicts Khan *et al*. (2013) who found out that net profit margin ratio negatively affected stock returns in Pakistan textile industry. Haghiri and Haghiri (2012) investigated whether the news and information obtained from companies' financial reports have an effect on shares return for companies listed in Tehran stock exchange for 120 manufacturing companies for the period 2003 to 2008. The results showed at general level return on equity and return on asset are effective on stock return. In the separated by industry levels the results of return on equity and return on asset are different on stock returns for each industry.

The analysis showed that profitability had positive and significant relationship with stock liquidity. The findings are in agreement with Fang *et al*. (2008) who investigated the relationship between stock liquidity and firm performance for firm in America from the period 1990 to 2004 in 3174 firms. The study revealed that stock with liquidity have higher profitabilty for firm in America. The finding contradicts with Norvaišienė and Stankevičienė (2014) who examined the impact of company's internal factor on stock liquidity in Baltic countries for the period 2005 to 2012.Their findings was that profit had no influence on stock liquidity in Latvian and Lithuanian companies. Nassar (2016) investigated the factors affecting share liquidity of companies listed on Istanbul stock exchange in Turkey from 2005 to 2012 for 199 industrial companies. The objective of the study was to examine the factors affecting share liquidity of companies. Regression analysis model was employed, the study employed secondary data which was collected from online sources. The result was that return on equity and earnings per share had a negative insignificant relationship with stock liquidity while return on assets had positive significant relationship with stock liquidity.

Conclusion

In conclusion, the study provides empirical evidence supporting the positive and significant influence of profitability on both stock return and stock liquidity among listed non-financial companies in Kenya. This suggests that companies with higher levels of profitability tend to experience higher returns on their stocks and greater liquidity in the market. Furthermore, the research highlights the moderating role of firm size on the relationship between profitability and market performance. Specifically, the findings indicate that larger firms amplify the positive impact of profitability on stock market performance within the Kenyan context. These conclusions underscore the importance of profitability as a key determinant of stock market performance for non-financial companies in Kenya, with firm size playing a significant moderating role.

Recommendations

The study findings revealed that profitability has positive significant effect on market performance of stocks of listed non-financial companies in Kenya. Thus investors who wish to invest in securities with high stock liquidity and stock returns should consider firms with high profitability. The study also recommends that listed non-financial companies should seek ways to increase their profitability to attract more investors through strategies such as cost reduction and efficiency.

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