

“The relationship of capital structure and firm’s stock prices of
fertilizer companies listed on Islamabad Stock Exchange”



By:

Name : Samana Yunus

Enrolment # : 01-221131-021

Supervisor :

Madam Hina Samdani

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ABSTRACT

Capital structure changes effect stock prices and reciprocally fluctuations in stock prices should be balanced out with capital structure adjustments. This interrelation is however under studied. Therefore, the research question is focused on to find the relationship of capital structure and firm's stock price of fertilizer companies listed on Islamabad Stock Exchange. The performance of agriculture sector plays a vital role in the economy of Pakistan, wherein, fertilizer industry serves as the back bone. This sole factor places fertilizer industry in a strategically important position. Therefore, the objectives of the study are to elaborate and measure the relationship of capital structure decisions and stock price movement, and define the role of stock prices in explaining capital structure and companies reaction to stock price fluctuations within fertilizer sector. The research is based on four hypotheses and constitutes a double regression equation research model. The available literature on the topic starts from the work of Miller & Modigliani (1958, 1963), following Trade-off, Pecking Order, Signalling, Free Cash Flows, and Market Timing Theories. Moreover, the related studies discussed include many researches (Yang, et al., 2010; Hussain & Gull, 2011; Khan, et al., 2013). The research sample is based on panel data for five fertilizer firms for past ten years (2004-2013). Industry data has been displayed through descriptive statistics and further analysis has been done through correlation and regression analysis. Positive correlation is found between stock price and leverage. Regression results show that capital structure changes and stock price movements have positive relationship to each other. Moreover, size of firms is negatively related to stock price, while positively related to leverage. Profitability and Liquidity are positively related to stock price and negatively related to leverage. Time Interest Earned is negatively related to stock price and leverage. To conclude, Independent variables in equation 1 explain 43% of the variation in stock price, while, the independent variables in equation 2 explain 56% of the variation in leverage. It is finally recommended that the fertilizer firms' managements and investors should have good understanding of corporate, capital structure, and capital market dynamics. Additionally, government should take necessary actions to enhance growth of the sector. Future research on the topic within the same sector or in different sectors with greater sample size and other variables can provide additional insights for researchers, professionals, and investors.

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DEDICATION

I DEDICATE MY THESIS REPORT TO
MY BELOVED GRANDMOTHER AND MY PARENTS,
WHO HAVE ALWAYS ENCOURAGED ME, MORALLY SUPPORTED ME,
AND PRAYED FOR ME DAY AND NIGHT.

IT IS THEIR UNTIRING EFFORTS WHICH HAVE MADE ME WHAT I AM
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“The family is one of nature’s masterpieces”

(George Santayana)

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APPENDIX – A

Pakistan’s Fertilizer Sector¹

	Location	Province	Product Manufactured	
1	<u>Fauji Fertilizer Company Limited (FFC)</u>			
	Plant -I	Goth Machhi, RYK	Punjab	Urea
	Plant -II	Goth Machhi, RYK	Punjab	Urea
	Plant -III	Mirpur Mathelo, Ghotki	Sindh	Urea
2	<u>Fauji Fertilizer Bin Qasim Limited (FFBL)</u>			
	Plant-I	Bin Qasim, Karachi	Sindh	Urea
	Plant-II	Bin Qasim, Karachi	Sindh	DAP
3	<u>Engro Fertilizers Limited (EFL)</u>			
	Plant-I	Daharki	Sindh	Urea
	Plant-II	Bin Qasim, Karachi	Sindh	NPK
	Plant-III	Daharki	Sindh	Urea
4	<u>Dawood Hercules Chemicals Limited (DAWH)</u>			
		Sheikhupura	Punjab	Urea
5	<u>Pak Arab Fertilizers Limited (PFL)</u>			
	Plant-I	Multan	Punjab	Urea
	Plant-II	Multan	Punjab	NP
	Plant-III	Multan	Punjab	CAN
6	<u>Fatima Fertilizers Company Limited</u>			
	Plant-I		Punjab	Urea
	Plant-II		Punjab	CAN
	Plant-III		Punjab	NPK
	<u>Agritech Limited (formerly Pak American</u>			
7	<u>Fertilizers Limited)</u>			
		Iskanderabad, Mianwali	Punjab	Urea
8	<u>Hazara Phosphate Fertilizers Limited (HPFL)</u>			
		Haripur	KP	SSP
9	<u>Lyallpur Chemicals & Fertilizers Limited (LCFL)</u>			
		Jaranwala	Punjab	SSP

¹ Fertilizer Sector Study (2011)- The Pakistan Credit Rating Agency Limited (PACRA)