

**CAPITAL STRUCTURE AND ITS EFFECTS ON FIRM
PERFORMANCE IN OIL AND GAS SECTOR OF PAKISTAN**

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ABSTRACT

This project aims to analyze the performance of the oil and gas industry in Pakistan with respect to its capital structure. The focus is on identifying the differences in profitability, liquidity and solvency of all the listed firms in this sector keeping in mind the leverage these firms enjoy. This study reveals that the two categories of oil and gas companies in Pakistan i.e. the exploration companies and the marketing companies vary a lot in their performance indicators. The marketing companies have more debt in their capital structure, have higher revenues but their profit margins are low, and their asset turnover is much better than that of exploration companies. The exploration companies on the other hand are more equity financed, highly solvent, with an exceptional ability to pay-off their short-term liabilities and earn moderate to high returns for their share-holders.

The target firms in this study are divided into two categories. One category is the oil and gas exploration companies, which are four in number; while the other category is of five oil and gas marketing companies bringing the total sample size to 9 firms. This study focuses on the domestic firms only and no foreign companies are examined in this study. The methodology was to analyze the performance of these firms through information provided in the annual reports of the companies for a period of six years i.e. July 2003 to June 2008. Besides the annual reports, the stock market performance of these firms has been evaluated for the said period, and cumulative average returns have been calculated for each year in question.

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