

Table of Contents

APPROVAL SHEET	v
DECLARATION OF AUTHENTICATION.....	vi
ACKNOWLEDGEMENTS	vii
Abstract.....	1
Chapter 1	2
1. Introduction:	2
1.2 Overview of Fertilizer Sector in Pakistan	6
1.3 Research Objective.....	7
1.4 Significance of the study	7
1.5 Limitations of the Study	8
Chapter 2.....	9
2. Literature review.....	9
2.1 Theories of Capital Structure	21
2.1.1 Modigliani-Miller Theorem	22
2.1.2 Static trade-off theory	22
2.1.3 Dynamic Tradeoff Theory	23
2.1.4 The Pecking Order Theory	23
2.1.5 The Market timing theory.....	24
2.2 Problem Statement:.....	25
Chapter 3.....	26
3. Research Methodology	26
3.1.1 Research Philosophy:	26
3.1.2 Research Approach:.....	27
3.1.3 Research Strategy:	27
3.1.4 Time horizon:	27
3.1.5 Data analysis:.....	27
3.2 Population and Selected Sample	27
3.3 Research Question:	28

3.4	Hypothesis of the study:.....	28
3.5	Theoretical Framework:.....	28
3.7	Operational Definition of variables:.....	29
3.7.1	Dependent Variable.....	29
3.7.1.1	Stock Return (SR).....	29
3.7.2	Independent Variable.....	30
3.7.2.3	Debt to Equity Ratio.....	30
3.7.2.4	Firm Size.....	30
3.7.2.5	Dividend.....	30
3.7.2.6	Market Return.....	30
3.7.2.7	Return on Asset.....	30
3.7.2.6	Production of Fertilizer.....	30
3.8	Statistical Method:.....	30
3.8.1	Data Processing Tool.....	31
3.8.2	Model Specification.....	31
Chapter 4	31
Results and Analysis:	31
4.1	Correlation Coefficient.....	31
4.2	Regression Analysis.....	33
4.2.1	Panel Data Model-Wald Test.....	33
4.2.2	Panel Data Model- Hausman Test.....	33
4.2.3	Standard error:.....	34
4.2.4	T-Statistics:.....	34
4.2.3	T-Value.....	34
4.2.4	T-Test.....	35
4.2.5	R-square:.....	35
4.2.6	F-statistics:.....	35
4.2.7	Firm size:.....	36
4.2.8	Production of Fertilizer.....	36
4.2.9	Debt/equity Ratio.....	37
4.2.10	Return on Asset.....	37

4.2.10	Market Return	38
4.2.11	Dividend.....	38
Chapter 5	39
5.	Conclusion.....	39
5.1	Recommendation Study and future extensions	41
Chapter 6	42
6.	References	42

BAHRIA UNIVERSITY
Faculty of Management Sciences
MASTER'S THESIS (MS-FINANCE)



**EFFECT OF CAPITAL STRUCTURE ON STOCK
RETURN-A CASE OF FERTILIZER SECTOR IN
PAKISTAN**

Author: **Izzat Ali**

Supervisor: **Khalid Mumtaz**

**SUBMISSION FORM OF THESIS FOR HIGHER RESEARCH DEGREE
BAHRIA UNIVERSITY, ISLAMABAD**

Candidate Name: **Izzat Ali**

I submit _____ Copies of thesis for examination for the degree of MS-Finance Thesis Titled:
Effect of capital structure on Stock return-A case of fertilizer sector in Pakistan

Candidate Signature: _____ Date: _____

Certificate of Principal Supervisor

I **Khalid Mumtaz** being the principal Supervisor for the above student, certify that thesis is in a form suitable for examination and that the candidate has pursued his course in accordance with the Rules of the University.

Signature: _____ Date: _____

Recommendation for Examination

I recommend that the thesis be examined.

Principal Supervisor: _____ Date: _____

Co-Supervisor: _____ Date: _____

Not Recommended for Examination

I recommend that the thesis be examined.

Principal Supervisor: _____ Date: _____

Co-Supervisor: _____ Date: _____

Statement by the Head Faculty/Department

I support the submission of the thesis of the above named student for examination under the University Rules for higher degrees.

Signature: _____ Date: _____

BAHRIA UNIVERSITY, ISLAMABAD

APPROVAL SHEET
SUBMISSION OF HIGHER RESEARCH DEGREE THESIS

Candidate's Name: **Izzat Ali**

Discipline: Masters in Finance

Faculty/Department: Management Sciences

I hereby certify that the above candidate's work, including the thesis, has been completed to my satisfaction and that the thesis is in a format and of an editorial standard recognized by the faculty/department as appropriate for examination.

Signature(s):

Principal Supervisor: _____

Date: _____

The undersigned certify that:

1. The candidate presented at a pre-completion seminar, an overview and synthesis of major findings of the thesis, and that the research is of a standard and extent appropriate for submission as a thesis.
2. I have checked the candidate's thesis and its scope, format; editorial standards are recognized by the faculty/department as appropriate.

Signature(s) :

Dean/Head of Faculty/Department:

Date: _____

DECLARATION OF AUTHENTICATION

I, Izzat Ali MS/M.Phil, Student in the Department of Management Sciences, Bahria University Islamabad. Certify that the research work presented in this thesis is to the best of my knowledge my own. All sources used and any help received in the preparation of this dissertation have been acknowledged. I hereby declare that I have not submitted this material, either in whole or in part, for any other degree at this or other institution.

Signature: _____

Name: Izzat Ali

ACKNOWLEDGEMENTS

First of all, I praise the Almighty Allah who enabled me to precede my work successfully. Behind my work, there are several people's effort for which I would like to express my profound gratitude.

Foremost, I express my heartiest appreciation to my thesis advisor **Khalid Mumtaz** for his continuous and patient assistance, motivation and beneficial critique. I'm particularly grateful to my cooperative teachers Khalid Mumtaz for giving me constructive instructions during my research work.

Besides, my companions are really admissible for their company and assistance in collecting my data. Finally, I would like to profoundly appreciate and admire my parents and family for their continuous spiritual support.

Izzat Ali

Abstract

Capital structure decisions are the key financial decisions of a company since it affect return and risk of shareholders. This study examines effect of capital structures and stock return of the listed companies in the fertilizer sector of Pakistan. Literature review on the relationship between the stock return and capital structure of different sectors showed that there is mix movement such as positive, negative or neutral relationship. It also showed there is no conclusive evidence of what should be the optimal level of capital. This study assessed effect of debt/equity ratio, firm size, dividend, return on Asset (ROA), production of fertilizer, market return and stock return. There are seven fertilizer companies registered on the Islamabad stock exchange. This study covered five listed companies as two companies is not registered shares in the specified years at Islamabad stock exchange. The secondary data are obtained through the company's website and data pertaining to fertilizer sector over the period 2009-2016. Correlation analysis, Panel Data analysis method and E-views is used for data analysis. This study found positive relationship of debt/equity ratio, firm size, dividend and return on Asset (ROA) with stock return while inverse relationship of production of fertilizer, market return with stock return. These findings have important implications for the investor who are interested for the announcement of dividend and managers, policy maker and stakeholder who make decision regarding capital structure, Therefore, the decisions regarding capital structure should be taken with care so that there is no negative impact on firm value.

Keywords: Debt to equity Ratio, Firm Size, Return on Asset, Production of fertilizer, Dividend, Market return, Stock return.