

"Impact of change in capital structure and risk on stock return: A Study of Oil and Gas Sector of Pakistan Firms Listed on Pakistan Stock Exchange (PSX), Pakistan."



By:

MUHAMMAD JUNAID

(01-120131-033)

MBA

Supervisor:

SIR SHAHZAD BUTT

Department of Management Sciences

Bahria University Islamabad

2016

Abstract:

This paper studies the effects of change in capital structure and risk on returns of different companies working under the oil and gas sector in Pakistan. A sample of five companies were selected for this research. All companies were listed on Pakistan stock exchange. Capital structure is measured by the debt to equity ratio. Risk is being measured through beta, standard deviation and also coefficient of variance. This study is basically based on the data which was historical. Data showed the time period of five year from 2011-2015. This study includes the comparison of mean returns of all selected companies with risk factor and D/E ratio yearly. We got the results that mean stock returns of all companies showed an increase with the increase in the risk factor. Risk was very high in 2013 and return was also high among all years. D/E was very low among all years and its returns showed highest returns for this year than other years.

Keywords: Risk, Return, Capital structure, Standard Deviation, Beta, Coefficient of Variance, Stock Return, Wacc, D/E Ratio.

Acknowledgment :

All the praise for ALLAH who is the most merciful and beneficial and for our beloved Prophet Hazrat Muhammad (P.B.U.H). They give knowledge, courage and helped me in every step to achieve my goal of accomplishing my research work successfully.

It's a great honor for me to give respect and credit to those who helped me in making this research possible. I would like to especially show my sincerity and thankfulness to my most respected and honored supervisor Sir Shahzad Butt. He provided me his valuable assistance throughout my dissertation. He contributed his remarkable efforts in preparing and completing my research study efficiently. I am pleased to do my work with such a corporative and nice person. He showed his keen interest throughout my research and he gave me a chance for discussion whenever required in a friendly environment. I worked hard under his supervision and directions to complete my research properly.

Dedication:

"To all those who helped me and showed their sincerity and dignity. I dedicate my work to those who put their immense efforts in making things possible throughout my MBA. I dedicate my this work, all achievements and life to my parents, teachers and friends who polish my skills, encourage me, build my confidence and they enables me to reach at this stage of my life".

Table of Contents

Abstract:	I
Acknowledgment:	II
Dedication:	III
Chapter 1	- 1 -
Introduction:	- 1 -
Theoretical Background:	- 1 -
Sector for our research:	- 2 -
<i>Pakistan State Oil:</i>	- 3 -
<i>SHELL Pakistan:</i>	- 3 -
<i>OGDCL:</i>	- 4 -
<i>Attock Petroleum:</i>	- 4 -
<i>Pakistan Petroleum Limited:</i>	- 5 -
Problem statement:	- 5 -
Defining key terms:	- 6 -
<i>Investment:</i>	- 6 -
<i>Definition of Capital:</i>	- 6 -
Definition of Capital Structure:	- 6 -
Stock Return:	- 7 -
Risk:	- 8 -
<i>Systematic Risk:</i>	- 9 -
<i>Unsystematic Risk:</i>	- 9 -
<i>Business Risk:</i>	- 9 -
<i>Poor management:</i>	- 9 -
• <i>Demand and supply of products:</i>	- 10 -
• <i>Low quality of inputs and outputs:</i>	- 10 -
• <i>Labor strikes:</i>	- 10 -
<i>Financial Risk:</i>	- 11 -
<i>Liquidity Risk:</i>	- 13 -
• <i>Time:</i>	- 13 -

- *Certainty:*..... - 13 -
- *Price:* - 13 -
- Funding Risk:* - 14 -
- Asset Liquidity risk:* - 14 -
- Country risk:* - 15 -
- *Economic factors:*..... - 15 -
- *Political factors:* - 16 -
- *Regulatory frameworks* - 16 -
- Foreign exchange risk:*..... - 17 -
- Research Questions: - 18 -
- Objectives of the study: - 19 -
- Significance of the study: - 20 -
- Scope of the study: - 21 -
- Chapter 2 - 22 -
- Literature Review: - 22 -
- Relationship between capital structure and stock return:*..... - 22 -
- Sources of raising equity capital: - 32 -
- Public Issues:* - 32 -
- Right Shares:* - 32 -
- Private Placements:* - 33 -
- Retained Earnings:* - 33 -
- Agency Costs Model:* - 34 -
- Another conflict between the equity holders and debt holders:*..... - 37 -
- Models Based on bearing level of risk by Management:* - 39 -
- Relationship between risk and return:*..... - 40 -
- Theoretical Framework: - 47 -
- Hypothesis formation: - 48 -
- Chapter 3 - 49 -
- Research Methodology: - 49 -
- Population:* - 50 -
- Sample technique:* - 50 -
- Sample size:* - 50 -
- Time Span:* - 51 -
- Statistical technique:* - 51 -
- Technical procedures and Tools: - 51 -

<i>Return of Stock (Rs):</i>	- 51 -
<i>Return of Market (Rm):</i>	- 52 -
<i>Variance of stock:</i>	- 52 -
<i>Standard deviation of stock:</i>	- 52 -
<i>Beta:</i>	- 53 -
<i>D/E ratio:</i>	- 53 -
Chapter 4	- 54 -
Analysis of risk and return data:	- 54 -
Analysis of all five companies:	- 68 -
Analysis of change in capital structure on stock return:	- 68 -
Chapter 5	- 72 -
Summary of findings:	- 72 -
Conclusion:	- 74 -
Recommendations:	- 75 -
Future Research:	- 76 -
Chapter 6	- 77 -
Bibliography:	- 77 -