

Title: Viability of Equity Valuation Techniques with regard to Price Target Attainability for Nairobi Securities Exchange Companies

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ABSTRACT

The purpose of this research was to establish the popular techniques that used by different firms in the valuation of shares. In line with this, the study has also sought to establish the reason behind the popularity of certain tools. The research was also aimed at finding out whether price targets formulated by actual valuation techniques are valuable. This was achieved through a series of correlation tests as well as examining of how many of the price targets were either attained or exceeded. The third objective of this research was to pinpoint some of the key challenges that analysts and investors in the market face when using these valuation tools. By highlighting the main challenges they face, the research sought to provide possible recommendations that may benefit the Capital Market Authority (CMA) in Kenya, the Nairobi Securities Exchange, investors, analysts and other stakeholders in the financial markets.

The findings of the research showed that Discounted Cash flow analysis, Price/Earnings multiple, Price/Book Value are the most popular techniques with net Asset Value being the least relied upon valuation tool. With regard to price target attainability, only 50.83% of the price targets from analysts' valuation reports were attained or exceeded. This was however skewed in terms of the valuation techniques in that price targets obtained through Price Book Value had the highest percentage being met. Difficulty in establishing forecasted cash flows and discount rate and the difficulty in using and interpreting multiples were the main challenges that face analysts in the industry.