COMPARATIVE ANALYSIS ON LISTED STOCKS IN DSE:

A CASE STUDY OF CRDB BANK AND NMB BANK TANZANIA

By

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Dissertation Submitted in Partial Fulfilment of the Requirement for the Degree of Master of Business Administration. Of the

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the University of Dodoma a dissertation entitled: ***"Comparative Analysis on Listed Stocks in DSE: A Case Study of CRDB Bank and NMB Bank in Tanzania"*** in partial fulfilment of the requirements for the degree of Masters of Business Administration(MBA) of the University of Dodoma.

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Dr. Mark Paul Diyammi

(SUPERVISOR)

DECLARATION AND COPYRIGHT

I, **Mankaga Esther Phortunatus**, declare that this Dissertation is my own work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature .....

ACKNOWLEDGEMENTS

The path to success is neither smooth nor simple to archive, however, our learning's and motivation by our close ones and our mentors help us to reach beyond our potential. My project would remain partial without acknowledging people who encouraged me to achieve this milestone.

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DEDICATION

This thesis is dedicated to my father, who taught me that procrastination is the big thief of time. It is also dedicated to my mother, who taught me that even the largest task can be accomplished if it is done one step at a time.

ABSTRACT

This study was based on Comparative Analysis on Listed Stocks at the Dar-es-Salaam Stock Exchange, (DSE) using two commercial banks as a Case Study. Generally, the study analysed the performance of bank stocks in DSE. The specific objectives were to work out some financial ratios and compare both ratios of NMB and CRDB banks, to find out the Market Capitalization of both banks and lastly, to investigate the challenges facing DSE.

The sample size of 52 respondents was used. Methods used for data collection were interviews, questionnaires and documentary review. Software Package for Statistical Science (SPSS) was used for management and analysis of data. The study revealed that,both banks generate low dividend yields, with NMB having higher earnings power, gross profit margin and total assets turnover. It seems this bank is making better use of owners' resources.

The data shows that NMB Bank uses more debts in financing its assets. It recently managed to generate more sales and its Market Capitalization is higher than that of CRDB. Therefore, NMB contributes more to the domestic market capitalization. The challenges facing DSE include; low volume of transactions and limited products traded causing illiquidity,[1] very low local participation, and .limited foreign ownership.

The researcher recommends that investors may invest in any of these two banks. Future researchers may conduct some research on stock analysis, and extend it further to include computation and analysis of the intrinsic values of listed companies in DSE. The researcher is convinced that the stock market is not active enough and strongly recommends that the DSE may increase the number of participation of foreigners and local people in the stock market to make it more vibrant. Lastly, the banking industry may look for more was of increasing and expanding its production.

[1] DSE Annual Report and Financial Statements for the year ended 30 June 2008

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LIST OF ABBREVIATIONS AND ACRONYMS

CA Current Assets

CE Capital Employed

CRDB Corporate Rural Development Bank

DE Debt-Equity

DPS Dividend per Share

DSE Dar –es Salaam Stock Exchange

EBITDA Earnings before Interest Tax Depreciation and Amortisation

FA Fixed Assets

GDP Gross Domestic Product

i.e That is to say

n Number of Respondents.

NCA Net Current Assets

NMB National Microfinance Bank

NMB National Microfinance Bank.

NW Net Worth

PAT Profit after Tax

ROE Return on Equity

ROE Return on Equity

ROI Return on Investment

ROTA Return on Total Asset

TD Total Debt

CHAPTER ONE

INTRODUCTION AND BACKGROUD INFORMATION TO THE STUDY

1.0 Introduction

This chapter attempts to introduce the study about ‘**‘Comparative Analysis on Listed Stocks in Dar –es- Salaam Stock Exchange’’,** it comprises of the background of the study, research questions, and significance of the study. The chapter ends up with the scope of the study and its conclusion.

1.2 Background Information to the Study

1.2.1 Historical Situation of Banking in the World

The History of Banking begins with the first prototype banks of merchants of the ancient world that made grain loans to farmers and traders carrying goods between cities; recorded as having occurred at about 2000 BC within the areas of Assyria and Babylonia. Later on, in ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations: the accepting of deposits and the changing of money. Archaeology from this period in ancient China and India, shows the existence also of money lending activity[2]. Banking, in the modern sense of the word, can be traced to medieval and early Renaissance Italy, to the rich cities in the north such as Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches

[2] (http://en.wikipedia.org/wiki/History_of_banking visited on 10th June, 5.12 am.)

in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank was established[3].

The development of banking spread through Europe also and a number of important innovations took place in Amsterdam during the Dutch Republic in the 16th century and in London in the 17th century. During the 20th century, developments in telecommunications and computing resulting in major changes to the way banks operated and allowed them to dramatically increase in size and geographic spread. TheLate-2000s financial crisis saw significant number of bank failures, including some of the world's largest banks, and much debate about bank regulation.

1.2.2 History of Banking in Tanzania

The banking systems in Tanzania have a long history from the colonial era to the times of socialism regime and now the market oriented economy. Tanzania embarked on financial liberalization in 1992 in order to sustain its economic growth. This has been done by mobilizing financial resources, increasing competition in the financial market and enhancing quality and efficiency in credit allocation. As a result, the sector has been booming, particularly during the last few years[4].

Since embarking on financial liberalization, the total assets have increased by 60%, from $1.7 billion at the end of 1999 to $2.7 billion at the end of June 2004. The securities market in Tanzania also emerged in the 1990s as a result of the

[3] Giovanni Medici in 1397

[4] http://www.tanzaniaivest.com/tanzania-banking-sector (visited on 10th June, 5.12 am.)

government policy of liberalizing the financial sector, which included a study on monetary issues. Within such framework, the Capital Markets and Securities Authority (CMSA) were established in 1994 under the Capital Markets and Securities Act. Following the establishment of the CMSA, the Dar es Salaam Stock Exchange (DSE) was incorporated into the Tanzania banking and finance sector.

Currently, the DSE is the only formal trading place for securities in Tanzania, where 8 companies are listed, which are National Microfinance Bank, Kenya Commercial Bank(KCB), Corporate Rural Development Bank(CRDB), Twiga Cement, Tanga Cement, Kenya Airways, Jubilee Insurance and East African Breweries. Banks hold a unique position in most economies as creator of money, the principal depositories of public‘s financials savings, the primary allocator of credit, and managers of country’s payment systems.

Therefore, perform an intermediary function as gatherers of deposits a s allocators of credit. It is through these function that banks, in one way or another, contribute in the financial growth of the country .The financial growth is characterised in an increase in the number and variety financial institutions both bank and non- bank institutions and a substantial rise the ratio of financial assets to gross national product (or tangible wealth) is necessary condition for rapid economic growth.[5]

1.2.3 An Overview of CRDB Bank

Corporate Rural Development Bank (CRDB) Bank Plc is wholly-owned private commercial bank in Tanzania. The Bank was established in 1996 and has

[5] Kimbelly 1987

Grown and prospered over the years to become the most innovative, first choice, and trusted bank in the country. CRDB Bank has been recording progressive profit every year since its foundation and has paid dividends annually. The Bank reached an important milestone recently and was listed on the Dar es Salaam Stock Exchange on CRDB Bank offers a comprehensive range of Corporate, Retail, Business, Treasury, Premier, and wholesale microfinance services through a network of 60 branches, ATMs, Depository ATMs, Mobile branches, Point of Sales (POS) terminals and scores of Microfinance partners institutions. The Bank also operates through internet and Mobile banking services[6].

1.2.4 An Overview of National Microfinance Bank

National Microfinance Bank Plc (NMB) is one of the largest commercial banks in Tanzania, providing banking services to individual, small to medium sized business clients, as well as large businesses. It was established under the National Microfinance Bank Limited incorporation Act of 1997. This followed the break-up of the old National Bank of Commerce by an Act of Parliament. Three new entities were created at this time: NBC Holdings Limited, National Bank of Commerce Limited and National Microfinance Bank Limited.

Initially, NMB only provided payment services and savings accounts, with limited lending capabilities, before becoming a fully-fledged universal retail bank. In 2005, the Government of the United Republic of Tanzania privatised the bank when it sold part of its shareholding (49%) to a consortium led by the Cooperative Centrale

[6](http://www.crdbbank.com/index.php?option=com_content&view=article&id=46&Itemid=61&lang=en. Visited on 11th May 2012 at 09.48am)

Raiffeisen Boerenleenbank B.A. (Rabobank Group), which included the National Investment Company Limited (NICOL), Exim Bank Tanzania Limited and TCCIA Investment Company Limited. Subsequently, there was further divestiture in 2008 when the Tanzanian Government off loaded another 21% of its shareholding to the Tanzanian public through an Initial Public Offering (IPO). This indicates the large shareholders preference, and takeover effect reflected in the performance and stability of the bank.

The listing of the bank's stock on the Dar es Salaam Stock of Exchange has led to a diversified ownership structure. Rabobank of the Netherlands continues to provide Management Services and Technical Assistance to NMB. The customer base remains representative of Tanzania as a whole and includes government, civil servants, large corporations, SMEs and microenterprises, agriculture clients including small-scale farmers, microfinance institutions and the Tanzanian public, in both rural and urban areas.

NMB use its own widespread distribution network to reach its customers and it is a key player in improving financial institution in Tanzania The Vision of the bank is to be the preferred financial services partner in Tanzania, and the Mission- Through innovative distribution and its extensive branch network, to offer affordable customer focused in order to realise sustainable benefit for all its stakeholders.

1.3 Statement of the Problem

There are too many people who recently suffer a financial distress because of investing in companies, without a clear understanding of their financial performance, stability and the dynamics of their market shares in the financial markets. Because of

this most people end up investing in weak companies and hoping for a turn-around. Normally people invest by buying issued shares of companies or banks, through their brokers who sometimes don't provide enough information to their clients about when to buy and sell the shares, or about the forecasted financial performances of those issued shares.

People should ensure that their best investments are made in stocks of companies that are already doing well and have a strong basis for continued growth.[7]Recently, in Tanzania it has been reported that few financial institutions example DESI has attracted Tanzanian society into investing into it, hoping for a high return after a short time, but on contrary, the organization collapsed, and those people who invested in that organization did not get back even their principal amount invested. Likewise for Barkclays bank which also faced a financial distress and had to close its 10 branches operating in Tanzania.

If left unchecked, this problem of investing blindly in a financially unreliable companies or organizations could lead to a continual loss of funds, as they are not secured enough, by first understanding the financial soundness and future growth perspective of those particular companies or organizations, this will increase burden to investors as their funds invested will never be recovered.

By reviewing the Bank's financial reports particularly of CRDB Bank and National Microfinance Bank as case studies, this research intends to make a thorough analysis and Comparison of financial performance to determine whether these banks are

[7] (http://www.investinganswers.com/term/intrinsic-value.983 13th May 2010

performing well, and if they have a going concern for maximizing shareholders wealth and if the money invested by those investors are well secured items of management of financial risk.

1.4 Objectives of the Study

1. 4.1 General Objectives of the Study

The analysis of this project focuses on the performance of the Bank Stocks in Dar-es-Salaam Stock Exchange (DSE) and challenges facing DSE as a stock exchange.

1.4.2 The Specific Objectives of the Study

Specifically the study focused on the following objectives.

1. To examine the trends of Profitability, Asset utilization and Leverage/Debt ratios of listed companies (NMB and CRDB Bank.)

2. To find out market capitalization of NMB and CRDB Bank over the period of time.

3. To investigate challenges facing DSE

1.5 Research Questions

In order to address the stated problems and achieve the set objectives, this study focuses to answer the following questions:

1. Are the financial ratios between CRDB and NMB suitable enough to attract investors?

2. What is the number of Stocks and Market Price of each bank at DSE?

3. What are the challenges facing DSE?

1. 6 Significance of the Study

Academicians and researcher can use this work as a reference to their work, to clear some gap on their research, to demonstrate knowledge and find some relationship with other projects relating to the study. The study will provide education to the whole society and areas relating to the study about the Comparative Analysis on Listed Stocks. This comparative analysis study will surely enrich the understanding of the Tanzanian society as a whole and enable them to learn from the experiences of the others. It also intends to boost the researcher's ambition to become an expert in corporate finance especially in security analysis.

Different Banks are currently facing financial problems, which affects not only the banks but business society as a whole because of reduction of credit facilities. This reduces the production power of business people, which directly affect the economy of the country especially from self employment perspective. The findings from the study are expected to fill the knowledge gap on comparative analysis on listed stocks and the market capitalization.

Investors will be able to understand about the company finances, before they make a decision to invest in it. Furthermore, they will be able to choose at a glance to invest on a particular company that is better performing than the other in the industry because of the knowledge and findings of Market Capitalization. This will be of relevant to a wider and diversified audience such as: The study serves as a partial fulfilment of the requirement for the award for the degree of Masters of Business Administration (MBA-Finance).

1.7 Scope of the Study

The financial statements of the two banks, CRDB and NMB of five years starting with the year 2007 to the year 2011, were put into use in this study, as secondary data. These statements were given to the researcher by Orbit Securities Limited in Dar-es-Salaam, with the consent from each bank. The researcher collected primary data from shareholders of each bank in Dar es Salaam, and from brokers, by the use of administered questionnaires, and some few bank executives by means of Semi-interviews.

1.8 Conclusion and Report Disposition

This chapter (Chapter 1) presented background information of Comparative Analysis on Listed Stocks. The first chapter lays down pertinent details concerning the background information to the study. Furthermore, statements of the problem to the study, objectives, significance and of the study have been affirmed in this chapter.

Chapter two makes available basic literature of the study. Meaning of key concepts related to the study is provided. A number of theories and models are developed here to explain the futures and functioning of financial performance. Advantages and disadvantages of ratio analysis have been exemplified and then summarized in the conceptual framework that guides the study.

Chapter three provides a thorough discussion on the way the research was conducted. It illustrates the methods employed when collecting primary and secondary data. It shows the research design employed and the area for the study. It describes the population and the sample size utilized as well as the sampling techniques used. At

the closing stage of this chapter, validity and reliability of data have both been discussed.

Chapter four presents and analyzes the research findings. It then furnishes the discussion and interpretation of factors considered in analyzing the financial performance.

Chapter five which is the final one summarizes the whole research. It portrays the contribution of the study via some recommendations. It also shows the limitation of the study and suggestions on the areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the related literature to point out the views of other scholars and academicians concerning the issue understudy. It shows the impact of financial performance on the investor's willing to invest. The researcher was aware of many similar completed works of other investigators, reported in literature. The updating of bibliographies was essential for determining how ones study comes in with the literature, similarities between

The researcher's findings and the work of others indicates validity. Finally the comparison with the literature will provide information about which findings from the study are new and enable the investigator to address the significance of their study.[8] This chapter is divided into two main parts, the theoretical literature review, in which the researcher focused on the theoretical understanding on the evaluation of financial performance and the second part is empirical literature review, which presents the work of other researchers, with similar issue under study.

2.1 Definition of the Key Concepts

- **Concept of Banking**

[8]Economic Research Bureau and Planning Commision (2002).Tanzania Economic Trends(A Bi-Annual Review of the Economy).Vol.15, No. 1

This is the business offering financial services: a business that keeps money for individual people or companies, exchanges currencies, makes loans, and offers other financial services.[9]

- **Concept of Listed Company**

This term refer to a business with tradable securities, a business whose stock may be traded on an exchange.[10]

- **Concept of Ratio Analysis**

A ratio is defined as 'the indicated quotient of two mathematical expressions' and as 'the relationship between two or more things' Ratio analysis is a powerful tool of financial analysis.[11]

- **Concept Shares/Stock**

In finance a share is a unit of account for various financial instruments including stocks, mutual funds, and limited partnerships. In British English, the usage of the word share alone to refer solely to stocks is so common that it almost replaces the work stock itself.[12]

[9] http://www.bing.com/Dictionary/Search?q=define+bank&form=DTPDIO

[10] http://www.bing.com/Dictionary/search?q=define+listed+company&qpvt=what+is+a+listed+company&FORM=DTPDIA

[11] I.M.Pandey

[12] http://www.sharemarketbasics.com/what-is-a- share.htm

- **Concept of Financial Performance**

It can be defined as the act of measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc.[13]

2.2 World Wide Review

Generally, the financial performance of Banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies[14].Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risk taken to earn this return.[15]

Most previous studies concerning company performance evaluation focus merely on operational efficiency and operational effectiveness, which might directly influence the survival of a company[16]. By using innovative two stage data envelopment analysis model in their study, the empirical result of this study that a company with better efficiency does not always mean that it has better effectiveness.

It was indicated that all financial performance measure as interest margin, return on assets and capital adequacy are positively correlated with customer service

[13] http://www.businessdictionary.com/definition/financial-performance.html

[14] (Avikiran, 1995)

[15] Hempel et al,1996

[16] Chien and Danw2004

quality.[17].Another The researcher discussed the development and performance of domestic and foreign banks in Arab gulf countries, and showed that local and foreign banks in these countries have performed well over the past several years[18]. Moreover, he added that banks in these economies are well capitalized and the banking sector is well developed with intense competition among the banks.

Generally, the concept of efficiency can be regarded as the relationship between outputs of a system and corresponding inputs used in their production. Within the financial efficiency literature, efficiency is treated as a relative measure, which reflects deviations from maximum attainable output for a given level of input[19]However, there have been numerous studies analyzed the efficiency of financial intuitions. Among these[20]use data envelopment analysis to analyze technical efficiency in US banking into pure technical and scale efficiency.

In practice, there are a number of problems with the use of market structure and regulatory indicators to measure competitiveness which also apply in the context of East African Community (EAC)[21]. Regarding market structure, he concentration ratio- the asset shares held by the three largest banks in each EAC country compare favourably with South Africa, particularly in the region's three largest markets. This

[17] Elizabeth and Ellot 2004

[18] Score Mazher 2003

[19] English and Warng, 1992

[20] Rangan and Grabowski, 1988

[21] Regarding indicators of market structure, there is the lack of clarity as to whether market structure determines bank behaviour(structure –conduct-performance hypothesis) or is the result of bank behaviour (efficient structure hypothesis) in the former (i)structure influence conduct(e.g lower concentration leads to more competitive the behaviour of firm) (ii) conduct influences performance (e.g, more competitive behaviour leads to better bank performance). In the latter, structure is not (necessarily) exogenous since market structure itself is affected by the firm's conduct and hence by performance.

evidence by itself suggests that the level of competition in the banking sector may be even across these countries.

However, banks performance indicators tell a different story. Banks are more profitable in the EAC than in South Africa as evidenced by the higher spreads and the return on assets (ROA). Lending spread, in particular, are about 6 to 8 percent higher in the EAC than in South Africa, while banks returns to assets is nearly three times as high, suggesting threat the level of competition within the EAC is substantially less than that in South Africa. In theory, these attractive rates of return may attract new participants to compete for market share and push down lending spreads; however, this does not appear to be happening. A decline in lending spreads would provide some indication that competition is intensifying within the region.[22]

2.3 Theoretical Literature Review

2.4 Ratios Categories

The liquidity measure the firm's ability to meet current obligations as they become due. The analysis of liquidity needs the preparation of cash budgets and cash and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations provide a quick measure of liquidity.

A firm may ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of creditors 's

[22] This is because a bank that raises its prices above marginal cost and begins to earn abnormal profits will attract potential rivals into the market to take advantage of these profits. This process will continue until profits fall back to the competitive equilibrium. This implies that competitive outcomes are possible even in concentrated or highly profitable systems (Claessens 2009)

confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad because, idle assets earn nothing.

The firm‘s funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity. The most common ratios, which indicate the extent of liquidity or lack of it are:-

Current ratio= Current Asset/Current Liabilities. Current Assets include cash and those assets that can be converted into cash within a year, such as marketable securities, debtors and inventories. Prepaid expenses are also included in current assets as they represent the payment that will not be made by the firm in future.

All obligations maturing within a year are included in current liabilities. Current liabilities include creditors, bills payable, accrued expenses, short-term bank loans, income-tax liability and long –term debt maturing in the current year. The current ratio measure of the firm’s short-term solvency. It indicates the availability of current assets in Shilling /(any currency)for every one Shilling of current liabilities. A ratio of greater than one means that the firm has more current assets than current claims against the assets.

As a conventional rule, a current ratio of 2 to 1 or more is considered satisfactory. This rule is based on the logic that in a worse situation, even if the value of current assets becomes half, the firm will be able to meet its obligation. The current ratio represents a Margin of Safety for creditors. The higher the current ratio, the greater the margin of safety. The larger the amount of current assets in relation to current liabilities, the more the firm’s ability to meet its current obligations.

However, an arbitrary standard of 2 to 1 current ratio may be doing well, while some firms with 2 or 1 or even higher current ratios may be struggling to meet their obligations. This is so because the current ratio is a test of quantity not quality. The current ratio measures only a total Sh. worth of current assets and total Sh. Worth of current liabilities. It does not measure the quality of assets. Liabilities are not subject to any fall in value.

If the firm's current assets consist of doubtful and slow-paying debtors or slow moving and obsolete stock of goods then the firm's ability to pay bills is impaired; its short-term solvency is threatened. Thus too much reliance may not be placed on the current ratio; a further investigation about quality of the items of current assets is necessary. However, the current ratio is a crude- and –quick measure of the firm's liquidity.

The Quick ratio or acid-test ratio, it establishes a relationship between quick, or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are debtors and bills receivables and marketable securities (temporary quoted investments) inventories are considered to be less liquid.

Inventories normally require some time for realising into cash; their value also has a tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities. Quick Ratio = Current Assets – Inventories/Current liabilitiesSo, that if the inventories do not sell the company may be able to meets its obligations.

Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition. Although quick ratio is more penetrating test of liquidity that the current ratio, yet is may be used cautiously. A quick ratio of 1 to 1 or more does not necessarily imply sound liquidity position it may be remembered that all debtors may not be liquid.

To a measurable extent, inventories are available to meet current obligations. Thus a company with a high value of quick ratio can suffer from the shortage of funds if it has slow paying, doubtful and long – duration outstanding debtors. On the other hand, a company with a low value of quick ratio may really be prospering and paying its current obligation in time if it has been turning over its inventories efficiently. Nevertheless, the quick ratio remains an important index of the firm's liquidity.

In cash ratio a financial analyst may examine cash ratio and its equivalent to current liabilities. Trade investments or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio.Cash Ratio= Cash+ Marketable Securities/Current LiabilitiesIf the company carries a small amount of cash, there is nothing to be worried about the lack of cash if the company has reserve borrowing power.

Interval measure ratio assesses a firm's ability to meet its regular cash expenses. It relates liquid assets to average daily operating cash outflows. The daily operating expenses will be equal to cost of goods sold plus selling, administrative and general expenses *less* depreciation (and other non- cash expenditures) divided by number of days in the year (say 30)Interval Measure= Current Assets Inventory/Average Daily Operating Expenses.

The ratio can be defined further, and instead of calculating only the daily operating expenditures, one may also include expenditures required for paying interest, acquiring assets and repaying debt.

Net working capital ratio is the difference between current assets and current liabilities excluding short-term bank borrowing is called net working capital (NWC), or net current assets (NCA) NWC is sometimes used as a measure of a firm's liquidity. It is considered that between two firms, the one having the larger NWC has the greater ability to meet its current obligations. This is not necessarily so; the measure of liquidity is a relationship, rather than the difference between current assets and current liabilities.

NWC however, measures the firm's potential reservoir of funds. It can be related to net assets or (capital employed)NWC Ratio = Net working Capital (NWC)/Net Assets (NA)It is to be noted that, liquidity ratios can mislead since current assets and current liabilities can change quickly. Their utility becomes more doubtful for firms with seasonal business. In case of seasonal businesses, liquidity ratios from quarterly or monthly financial data would be more appropriate.

Leverage or capital structure ratios are important when short- term creditors, like bankers and suppliers of raw material are more concerned with the firm's current debt paying debt-paying ability. On the other hand, long –term creditors, like debenture holders, financial institutions etc are more concerned with the firm's long-term financial strength.

Moreover, a firm may have strong short- as well as long term financial position. It indicates the mix of funds provided by owners and lenders. As a general rule, there

may be an appropriate mix of debt and owners equity in financing the firm's assets.Debt Ratio = Total Debt (TD)/Total Debt +Net Worth

Also, = Total debt/Capital EmployedSince capital employed = net assets that consist of net fixed assets(F.A) and net current assets (NCA)

Debt to equity ratio describes the relationship between lenders contribution for each Shilling/any other currency of the owner's contribution. It is calculated directly by dividing total debt by net worth.Debt-Equity (DE) ratio is calculated by dividing total debt by net worth.Debt- Equity Ratio = Total Deb/Net Worth

Capital employed to net worth ratio expresses the basic relationship between debt and equity. One may want to know how much funds are being contributed together by lenders and owners for each Shilling of owner's contribution.Capital Employed (CE) – to – NW ratio= Capital Employed/Net WorthAlso NA –to-NW ratio = Net Assets/Net Worth

The manner in which Assets are financed has a number of implications. Firstly, between debt and equity, debt is more risky from the firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit made or losses incurred by the firm. In the firm fails to pay to debt holders in time, they can take legal action against to get payments and in extreme cases, can force the firm into liquidation

Secondly, the use of debt is advantageous for shareholders in two ways.

- They can retain control of the firm with a limited stake and

- Their earnings will be magnified, when the firm earns a rate of return on the total capital employed higher that the interest rates on borrowed funds. The process of magnifying the shareholder's return through the use of debt is called financial leverage of financial gearing or trading on equity.

However, leverage can work in opposite directions as well. If the cost of debt is higher thus the firm's overall rate of return, the earnings of shareholders will be reduced. In addition, there is a threat of insolvency. If the firm is actually liquidated for non- payment of debt-holder's dues, the worst sufferers will be shareholders the residual owners. Thus, use of debt magnifies the shareholder's earnings as well as increases their risk.

Thirdly, a highly debt- burdened firm will find it difficulty in raising funds from creditors and owners in future. Creditors treat the owners of equity as a margin of safety; if the equity base is thin, the creditor's risk will be high. Thus leverage ratios are calculated to measure the financial risk and the firm's ability of using debt shareholder's advantage. Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing.

Many variations of these ratios exist; but all these ratios indicate the same thing that is; the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges. The implication of high debt ratio is that claims of creditors are greater than those of owners. A high level of debt introduces inflexibility in the firm's operations due to the increasing

The debt described above are static in nature, and fail to indicate the firm's ability to meet interest (and other fixed charges) obligations. The interest coverage ratio is used to test the firm's debt-servicing capacity. The interest coverage ratio is computed by dividing earnings before interest and taxes (EBIT) by interest charges:

Interest Coverage = EBIT/Interest

It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. Since taxes are computed after interest, coverage is calculated in relation to before tax earnings. Depreciation is a non-cash item. Therefore funds equal to depreciation are also available to pay interest charges. Thus, interest coverage ratio can be calculated before interest taxes, depreciation and amortisation (EBITDA).Interest Coverage Ratio = EBITDA/Interest

The limitation of interest coverage ratio is that it does not consider repayment of loan. Therefore a more inclusive ratios, the fixed –charges coverage is calculated Fixed – charges coverage ratios= EBITDA / Interest + Loan repayment/1- Tax Rate.

Furthermore, the equation above can be extended to include other fixed obligations such as preference dividends and lease rentals.= EBITDA/Interest + Lease rentals +PDIV +Loan Repay/1-Tax Rate

Are employed to evaluate the efficiency with which the firm manages and utilises its assets. They are called Assets turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales generally reflects that assets are managed well. Several activity ratio can be calculated to judge the effectiveness of asset utilisation.

1nventory Turnover indicates the efficiency of the firm in producing and selling its products. Inventory turnover = Cost of Goods Sold/Average inventory It indicates the efficiency of the firm in producing and selling its products. Its shows rapidly the inventory is turning into receivable through sales. A high inventory turnover is indicative of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales activities or a slow moving or obsolete inventory.

A high level of sluggish inventory amounts to unnecessary tie- up of funds, reduced profit and increased costs .if obsolete inventories have to be written off, this will adversely affect the working capital and liquidity position of the firm. However high inventory turnover may be the result of very low level of inventory, which results in frequent stock outs; the firm may be living from hand-to-mouth. Also inventory turnover will be high if the firm replenishes its inventory in too many small lot sizes.

When the firm extends credits to its customers (accounts receivables) are created in the firm's accounts. Debtors are convertible into cash over short period and therefore are included in current assets. Debtors = Credit Sales/Average Debtors This indicates the number of times debtors turnover each year. Generally, the higher the value of debtor's turnover, the more efficient is the management of credit.

Assets are used to generate sales. Therefore, a firm may manage its assets efficiently to maximise sales. The firm's ability to produce a large volume of sales for a given amount of net assets is the most important aspect of its operating performance. Unutilized or under-utilized assets increase the firm's need for costly financing as well as expenses for maintenance and upkeep. NB. The net assets turnover may be

interpreted cautiously. The net assets in the denominator of the ratio include fixed assets net of depreciation.

Thus old assets with lower book (depreciated) value may create a misleading impression for high turnover without any improvement in sales. Some analysts exclude intangible assets like goodwill, patents etc while computing the net assets turnover. Similarly, fictitious assets, accumulated losses or deferred expenditures may also be excluded for calculating the net assets turnover ratio.

Working Capital Turnover Ratio is used when a firm may want to relate net current assets (or net working capital gap) to sales.Net current Assets Turnover = Sales/Net Current Assets. Assets Turnover Ratio= Sales/Net Assets

A company may earn profit to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of the company may be aimed at maximising profits, irrespective of concerns for customers, employees, suppliers or social consequences.Gross Profit Margin= Sales – Cost of Goods Sold/Sales

This ratio reflects the efficiency with which management produces each unit of product. This ratio is indicates the average spread between the cost of goods sold and the sales revenue. A high gross profit margin ratio is a sigh of good management. It may also increase or decrease due to; higher sales prices, cost of goods sold remaining constant; lower cost of goods sold, sales prices remaining constant; a combination of variations in sales prices and cost, the margin widening and an increase in proportionate volume of higher margin items. But if firm categorises its

expenses into fixed and variable components, it can calculate contribution to sales ratio.[23]

Contribution Ratio= Sales- Variable Expenses/Sales

Earnings per share measures the value of the firm's performance as expected by investors. It indicates investor's judgement or expectations about the firm's performance[24] EPS= Profit After Tax/Number of Shares Outstanding.The EPS of the company may be compared with the industry average and the earnings per share of other firms. Is simply show the profitability of the firm on a per-share basis it does not reflect how much is paid as dividend and how much is retained in business.

Dividend yield is to be used in evaluating shareholder's return in relation to the market value of the share.[25]It is the dividends per share divided by market value per share,. Dividend yield= dividend per share/Market Value Per Share

Price earnings ratio reflects investor's expectations about the growth in the firm's earnings. Price Earnings Ratio=Market Value Per Share/Earnings Per Share. The price earnings ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investor's judgement or expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E declines[26]

[23] (Kennedy, RD and McMuller,SY)

[24] (Brealey, R.)

[25] (Myers,S)

[26] (Brealey,R. And Myers, S.)

The net profit after tax belongs to shareholders, but the income which they really receive is the amount of earnings distributed as cash dividends.DPS = Earning Paid to Shareholders (dividends)/Number of Ordinary Shares Outstanding

Common or ordinary shareholders are entitled to the residual profits. The rate of dividend is not fixed; the earnings may be distributed to shareholders or retained in the business. Nevertheless, the net profit after taxes represents their return. A return on shareholder's equity is calculated to see the profitability of owner's investment. The shareholders equity or net worth will include paid –up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets. Return on equity is the net profit after taxes divided by shareholder's equity which is given by net worth.

ROE= Profit After Taxes/Net Worth (Equity) Also – PAT/NW

The term may refer to total assets or net assets. The funds employed in net assets are known as capital employed. Net assets equal net fixed assets plus current assets minus current liabilities excluding bank loans. Alternatively, capital employed is equal to net worth plus total debt. The conventional approach of calculating return on investment is to divide Profit after tax (PAT) by investment. Investment represents pool of funds supplied by shareholders and lenders, while PAT represent residue income of shareholders; therefore, it is conceptually unsound to use PAT in calculation of ROI.

Also as discussed earlier, PAT is affected by capital structure. It is therefore more appropriate to use one of the following measures of ROI for comparing the operating efficiency of firms.

ROI= ROTA=EBIT (1-T)/Total Assets

=EBIT (1-T)/TAROI= RONA= EBIT (1-T)/Net Asset

Earnings not distributed to shareholders are retained in the business. Thus retention ratio is: 1- Payout ratio. If this figure is multiplied by the return on equity (ROE), we can know the growth in the owner's equity as a result of retention policy. Thus , Growth In Equity= Retention ratio x ROE Payout Ratio= Equity Dividends/Profit after Tax= Dividend per share/Earnings per Share

In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. For example a 5Million score net profit may look impressive, but the firm's performance can be said to be good or bad only when the net profit figure is related to the firm's investment.

The relationship between two accounting figures, expressed mathematically is known as a financial ratio (or simply as a ratio) Ratios help to summarize large quantities of financial data and to make qualitative judgement about the firm's financial performance. For example, consider current ratio which is calculated by dividing current assets by current liabilities; the ratio indicates a relationship- a quantified relationship between current assets and current liabilities.

This relationship is index or yardstick, which permits a qualitative judgement to be formed about the firm's ability to meet its current obligations. It measures the firm's liquidity. The greater the ratio, the greater the firm's liquidity and vice-versa. The

point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgement. Such is the nature of all financial ratios.

It is useful to make a comparison between the banking services providers within that sector. This applies to other activities as well, such as insurance companies, tea growers, coffee manufacturers and cement manufactures.[27] In stock analysis Bharadia explained different ratios that can be applied to do the analysis. These ratios include the following. He defined earnings per share as profits of a company after taxation and interest and divided by the total shares issued. He commented that it is important to compare past EPS as it gives one a gauge on several factors such as whether risk is correlated to return.

It also helps one to compare and identify the best company for investment. When, he looked for growth shares as opposed to speculative, cyclical or income shares. He said one can pick good buys by looking for shares where the EPS is steadily growing from year to year. Moreover, he defined dividend yield as the dividend per share expressed as the percentage of the market share price. Just looking at the dividend can be misleading. An important aspect when considering dividend as a percentage of the share price, is to get what is called dividend yield.

This helps the investor to peg the shares performance relative to other shares and investment portfolio including yields of treasury bills and bonds and interest rates on fixed deposits. Apart from that, He insists on price earnings ratio as one of the most used indicators by private investors, though investors need to be careful in

[27] Bharadia (2006),

interpreting it. The P/E ratio is calculated by dividing the market price of the share by the earnings per share figure, often provided in company reports.

In addition to that, Bharadia defined net profit margin as the percentage of sales amount left after subtracting the cost of goods sold from net profit and all sales including income taxes. Net profit margin provides good opportunity to compare companies return on sales Furthermore, Bharadia defined the Gross profit margin as the percentage of sales amount left after subtracting the cost of goods sold from net sales. Gross profit margin measures then percentages of sales amount remaining after obtaining or manufacturing the good sold available to pay the overhead expenses of the company. The comparison of this ratio between companies may reveal the relative strengths or weakness of these companies.

Last but not least, he defined Debt to equity ratio as the ratio which indicates how much the company is leveraged (in debt) by comparing what is owed to what is owned. A high debt to equity ratio could indicate that the company may be over leveraged and may look for ways to reduce its debt. Equity and debt are two key figures on financial statements, and lenders or investors often use the relationship of these two figures to calculate risks. The ratio of the business equity to its Long .term debt provides a window into how strong its finances are. Equity includes goods and property a business owns, plus any claims it has against other entities. Debt includes both current and long .term Liabilities.

2.4 Utility of Ratios Analysis

The ratio analysis is the most powerful tool of the financial analysis. Many diverse groups of people are interested in analyzing the financial information to indicate the

operating and financial efficiency, and growth of the firm. These people use ratios to determine those financial characteristics of the firm in which they are interested. With the help of ratios, one can determine;-

- The ability of the firm to meet its current obligations
- The extent to which the firm has used its long-term solvency by borrowing funds
- The efficiency with which the firm is utilizing its assets in generating sales revenue, and
- The overall operating efficiency and performance of the firm

2.5 Cautions in Using Ratios Analysis

The ratio analysis is a widely used technique to evaluate the financial position and performance of business. But there are certain problems in using ratios. The analyst should be aware of some limitations of the ratios analysis which includes the following

- It is difficult to decide on the proper basis of comparison.
- The comparison is rendered difficult because of differences in situations of two companies or of one company over years.
- The price level changes make the interpretations of ratios invalid.
- The differences in the definitions of items in the balance sheet and the profit and loss statement make the interpretation of ratios difficulty.

- The ratios calculated at a point of time are less informative and defective as they suffer from short –term changes.

- The ratios are generally calculated from past financial statements and, thus are no indicators of future.

2. 6 Empirical Literature Review

A case study of commercial banks efficiency in Tanzania by Aikaeli (2008) was made to investigate their efficiency using non parametric data envelopment analysis for the period 1998-2004. The result showed that commercial banks in Tanzania is not disappointing to financial sector reforms as the data envelopment analysis DEA efficiency scores was high, 96%.

By using a panel of 89 commercial banks drawn from nine Sub-Sahara African countries, covering the period 1992-99, the empirical finding of Kirkpatrick, Murinde, and Tefula (2007) suggests that banks are on average 67 percent profit efficient and that on average banks are 80 percent cost efficient, according to both the DFA and SFA metrics. Kirkpatrick, Murinde, and Tefula (2007) also find that an increase in the degree of foreign bank penetration, representing an increase in foreign bank ownership, is associated with a reduction in profit and cost x-inefficiency

In his research, (Sufian, 2009) investigated the determinants of bank profitability in a

developing economy, case study Malaysian financial sector during the period 2000-2004. The results showed that higher credit risk and higher loan concentration Malaysian banks face lower profitabilitylevel. On the contrary, Malaysian banks with higher level of capitalization, higher income from noninterest sources, and higher operational expenses face higher profitability level.

A comparative Analysis of Commercial Banking Performance in Bangladesh was conducted by (Malek, May-june,2005) who, for this purpose only, have taken nationalized commercial bank, local private commercial banks and foreign commercial banks operating during 1999 to 2002. He found out though majority of total assets, total foreign business and total deposits are held by the local private and nationalized banks but foreign bank outperformed other in performance.

Kraft and Tirgiroglu (1998) employed data envelopment analysis to measure the bank performance in Croatia in the years 1994 and 1995. They found that new banks show better performance than old banks and the profitability is negatively correlated to X-effiency. Avkiran (1999) examine the banks' efficiency in Australia in the period of 1986 and 1995. He stated that the bank efficiency rises slowly and steadily over years.

Chen and Yeh (2000) study indicated that Taiwanese privatized government owned banks are less efficient than private banks in the year 1986. Hwag, Lee, Lin and Ouyang (2009) took into consideration of both financial and nonfinancial performances when evaluating 35 sampled publicly traded commercial banks in Taiwan. The banks are classified based on the year founded and the type of major stockholders.

They found that the privatized government owned banks have significantly performed better than private banks. New and old banks are not significantly different from each other in both financial and nonfinancial performance indexes. They concluded that more branch offices, better capital structure and solvency, higher growth in deposits and loans result in more profits, and lead to higher customer satisfaction and more efficient management.

Samad (2004) examined the comparative performance of Bahrain's interest-free Islamic banks and the interest-based conventional commercial banks during 1991-2001. It has been realized that there exists a significant difference in credit performance between the two sets of banks. However, the study finds no major difference in profitability and liquidity performances between Islamic banks and conventional banks.

Srairi (2010) evaluated the cost and profit efficiency through stochastic frontier approach of 71 commercial banks of Gulf cooperation council countries from 1999 to 2007. The efficiency comparison between Islamic and conventional banks is evaluated across the world and especially the gulf countries. The calculated results revealed that the efficiency of banks at Gulf countries is more convincing than the world. It is also found that the conventional banks are more efficient than Islamic banks.

Kaleem and Isa (2003) evaluated the Islamic and conventional deposit returns through an alternative econometric procedure. They further studied the impact of one deposit return on the other deposit return. They stated that Islamic banking industry contributed a significant development in the Muslim countries.

Bley and Kuehn (2003) investigated the relationship of different financial terms and concepts about conventional and Islamic banking among the university students. It was found that the knowledge of the terminologies used in conventional banking was higher than Islamic banking terminologies. It was further argued that religious sincerity is not only source to find the preference for Islamic banking services. It was suggested that educating the understanding of the Islamic products would be compared to the conventional product would lead to better choices for consumer.

Viverita (2011) evaluated that Islamic banks observed insignificant cost efficiency at 5% than conventional banks. It was also found that Islamic banks generated more profitability and revenue than Islamic banks.

Haron and Ahmad (2000) assumed that if, there is an effect of conventional theory on the Islamic bank customers then there is a strong relationship between the rate of interest on the deposit at conventional banks with the rate of profit of the deposited amount at Islamic banks. They realized the effect of interest rate on deposited amount at conventional banks and past dividend rates on deposited amounts at Islamic banks through adaptive expectation model in Malaysian banks. They found that according to Muslim customers there is a negative relationship between interest rate of conventional banks with the rate of return offered by the interest free banks.

Ibrahim (2000) argued that as Muslims do consider this universe with dual view (this universe and hereafter) whereas the westerns seculars have materialistic view only. The inception of the conventional accounting systems in the Islamic organizations leads to mismatch the objective of the organizations with procedures used by that corporation. The researcher expressed that conventional accounting system carries western values and materialistic reality of profit whereas the Islamic ideology based on social welfare, justice and equity measures.

Kader & Leong (2009) found that Islamic bank financing are more expensive than conventional loan during diminishing interest rate. They concluded, Islamic banking system also victim of interest rate in-spite of this, the Islamic banks are running their operation on interest free principles. Saleh and Zeitun (2007) evaluated financial performance of two big Islamic banks of Jordan and found that both banks increased their efficiency and ability, expanded investment opportunities. It observed that these

Islamic banks emphasized on short term investment, and observed high credit growth and profitability.

Iqbal (2001) evaluated the performance of Islamic banks through trend analysis and ratios analysis during the period from 1990 to 1998 and it is found that Islamic banks performed quite well than the conventional banks over the specified period of time.

Akhtar, Ali and Sadaqat (2011) did comparative analysis of Islamic and conventional banks by focusing the importance of size of the firm, networking capital, return on equity, capital adequacy and return on asset with liquidity risk management. It is found that size of the banks and networking capital to net assets having positive but insignificant relationship with liquidity risk. Where as the capital adequacy in conventional banks and return on asset in Islamic banks having a positive and significant relationship with liquidity risk.

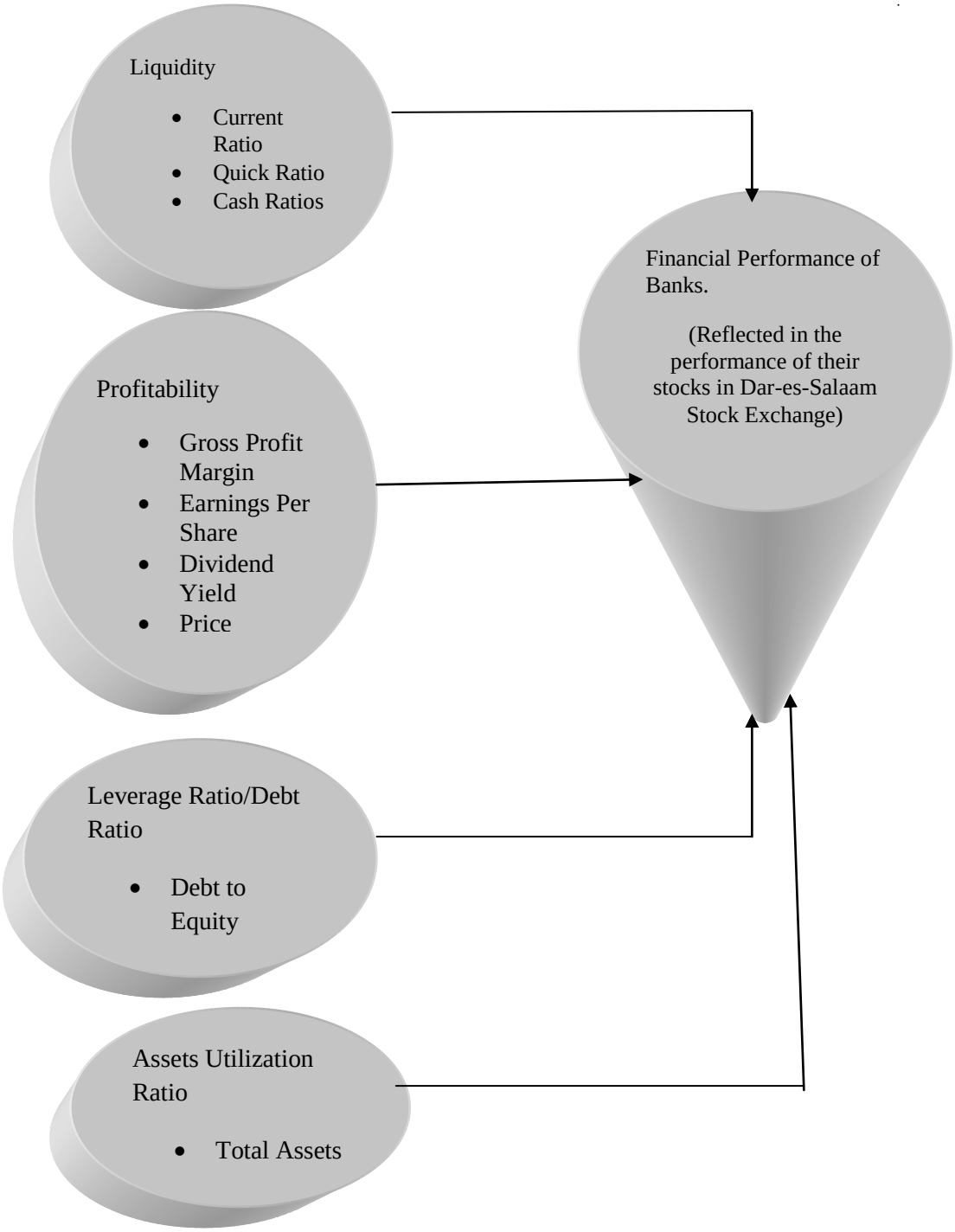
Jaffar and Manarvi (2011) evaluated the performance of Islamic and conventional banks through CAMEL test during the period of 2005 to 2009. The sample of their research is 5 Islamic and 5 conventional banks. It is found that Islamic banks performed better and having high liquidity than the conventional banks, moreover it is realized that conventional banks have pioneer in the management and having a good earning ability.

Al-Obaidan (2008) suggest that large banks are more efficient than small banks in the Gulfregion. Tarawneh (2006) found that the bank with higher total capital, deposits, credits, or total assets does not always mean that has better profitability performance. Financial performance of the banks was strongly and positively

influenced by the operational efficiency and asset management, in addition to the bank size.

2.7 Conceptual Framework of the Study

Figure 1: Conceptual Framework that Guides the Study is presented in Figure 1



2.7.1 Description of Conceptual Framework

The different variables mentioned in figure 1 are the Ratios and Financial performance, which is reflected in Dar-es-Salaam Stock Exchange. The figure above illustrates these variables. The term variable in this context refers to the characteristics of ratios, objects or phenomenon that take two or more values. This means characteristics that vary.[28] For the sake of this study, two variables namely independent and intervening variables were assumed to affect the dependent variable which is the financial performance and sustainability and growth of banks.

Independent variables are those that influence the dependent variables. They cause or affect the dependent variables to change, while intervening variables are those through which independent variables act to influence the dependent variables .They intervene the relationships between independent and dependent variables. Finally, dependent variables are those that form the focus of our study (financial performance), that are affected by independent and intervening variables.

The independent variables are the ratios computed from the annual financial statements of the two banks for the 5years, 2007 to 2010. For the purpose of this study, three categories of ratios were used, the profitability ratios, assets utilization ratios and the leverage ratios. The intervening variables are the number of brokers/agents who provide information to the investors about share traded in the DSE.

[28] (Kombo&Delno, 2006).

The dependent variable is the financial performance of the banks reflected in the performance of shares in DSE. This depends on the trend of the financial ratios computed.

2. 8 Knowledge Gap

The related reviews have tried to explain the comparison analysis of banking financial performance, of financial sector also about Muslims consideration of a universe with dual view (this universe and hereafter), the westerns seculars having materialistic view only and the inception of the conventional accounting systems in the Islamic organizations, as summarized below:-

A case study of commercial banks efficiency in Tanzania by Aikaeli (2008) was made to investigate their efficiency using non parametric data envelopment analysis for the period 1998-2004. The result showed that commercial banks in Tanzania is not disappointing to financial sector reforms as the data envelopment analysis DEA efficiency scores was high, 96%.Although the study provided a good insight about financial sector reform, it remained quiet about the market capitalization of the banks stocks and the challenges facing stocks exchanges, in dealing with trading of shares of commercial banks.

Ibrahim (2000) argued that as Muslims do consider this universe with dual view (this universe and hereafter) whereas the westerns seculars have materialistic view only. The inception of the conventional accounting systems in the Islamic organizations leads to mismatch the objective of the organizations with procedures used by that corporation. The researcher expressed that conventional accounting system carries western values and materialistic reality of profit whereas the Islamic ideology based on social welfare, justice and equity measures.

The study explored much about the conventional accounting system in the Islamic organizations, and the materialistic reality of profit whereas the Islamic ideology based on social welfare, justice and equity measures. But this study also remained quiet about the financial performances of the Islamic banks compared with commercial banks, and also about their market capitalization in the stock exchanges of their respective countries, reflected in the performances of their shares.

In this study the researcher provided an in depth comparison of financial performances of each of the banks, the performance of bank stocks, market capitalization of stocks of each bank in domestic market capitalization, so as to examine the contribution of each of the banks in the domestic market capitalization and the challenges facing Dar-es-Salaam Stock Exchange, where all these bank stocks are traded. The study also, suggested what could be done to improve the trading of shares in DSE and bank performances in general.

The reviewed literatures did not tell us exactly what is the current financial performance of banking in Tanzania, the different circumstances which are there, that can hinder the financial performance in financial institutions, banks inclusive.. They also did not tell us what can be done to improve bank's financial performance; no if those banks under study, were listed to tread their particular stocks of exchange in their respective countries.

The following chapter (chapter 3) will present the types of data collected, data collection methods, population, sample and sampling techniques, research design and validity and reliability of data.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses all about the methods used in the study. It begins by presenting the descriptions of the Study area, followed by presenting the research design and the case study. The discussion of sampling and methodology adapted to this study follows. Thereafter, the chapter presents data collection methods and approach of data analysis. The chapter winds with a section on validity and reliability.

3.1 Description of the Study Area

Dar es Salaam Stock Exchange is a stock market that is located in Dar –es- Salaam city, the leading business city of Tanzania. The market is in its growth stage being established in 1998. There are 7 Agents/Brokers in DSE which are Orbit Securities Limited, Tanzania Security Limited, Solan Stock Brokers, Vetex Security Limited, CORE Security Limited, Rasilimali Security limited and Zan security Limited. Nmb and CRDB were selected to represent other banks that are listed in DSE.

The head offices of the two banks are located in Dar es Salaam. DSE has the vision of being a model Securities Exchange in the Region and a mission of providing a responsive securities market which mobilizes savings and channels them into productive sectors, encourages a savings culture that contributes to the country's economic growth and facilitates wider access to resources. DSE provides reports on

the performance of each company and distribute it to its agents for the public to understand better about the financial direction of each listed company.

3.2 Population of the study

When dealing with this study, the population included shareholders of both NMB and CRDB Bank, Treasury officers and credit officer of both CRDB Bank and NMB Bank and Brokers and dealers in DSE.

3.3 Sample Size

To collect information for the whole population was not possible due to shortage of time, funds and difficult in allocating the population. Instead, a sample of the entire population was selected in getting information concerning the study.

The sample size of this study consisted of 2 treasury officers from CRDB and NMB 1 from each, 48 investors/shareholders (24 from each of the two banks), 2 bank executives (1 from each bank) and 4 Brokers. Brokers were used as key informants, and they have supplied supplementary information on various issues related to share buying and holding, fluctuation of market shares and the market capitalization. A total of 52 people were involved as a sample for the study.

3.4 Sampling Techniques

As the study aimed at collecting data from different units, the researcher used different sampling techniques in order to attain the expected number of sample. With respect to this, executive officers, bank treasures, the brokers were purposively selected. Shareholders of each of the two banks were randomly selected.

The study aspired to get pertinent data from shareholders, but in some cases, shareholders were not easily accessible. Due to this, the researcher attempted to collect data from the brokers who link share buyers to the issuing banks.

3.4.1 Purposive Sampling

In purpose sampling, respondents are selected for the quality they posses like the status, expertise and experience. For this reason, two treasurers, one from each bank the two financial institutions, i.e. CRDB and NMB are the ones among other financial institutions operating and providing financial services to small business and issue shares in DSE.

Final respondents who took part in the study from these organizations were selected on the virtue of their positions. The executive officers for the organization were selected for that matter.

3.4.2 Simple Random Sampling

In simple random sampling, shareholders were selected without replacement, and the researcher assumed that the population was known, and each shareholder of the two banks had equal chance of being selected, since this is a probability sampling technique which is based on the rule that every element in the population has an equal chance of being sampled and every combination of cases has equal chance of being selected.

3.5 Research Design

The research design that was adapted to this study was a case study with cross-sectional approach. Two banks, NBM PLC and CRDB Bank PLC, were selected for

comparison in the performance of their shares in DSE. A cross-sectional approach on the other hand tries to solve a problem in one point at a time, a snapshot of events in DSE.

3. 6 Research methodology

This study was based on mixed methods approach. With the mixed methods approach, this study made use of both quantitative and qualitative techniques in data collection. This was to make use of compatibility of the quantitative and qualitative methods rather than polarizing them, for complementary and triangulation purposes. Thus, the science-based 'objectivity' of quantitative methods[29] is complimented with the science- based quality of things[30].

3.7 Data Collection Methods

3.7.1 Questionnaires

Most primary data were collected through this method. The study collected data through questionnaire. Questionnaires were given and administered to shareholders of NMB and CRDB Bank. The main reason for administering questionnaires emerged from the advantages emanated from it. It has been argued that questionnaires delivered by hand are cheaper and faster than other methods (Ngirwa, 2005)

[29] Kin Chung Lo, (2009), 'Possibility and Persimibility' working papers 2009 -01, York University, Department of Economics

[30] Van Maanen, J,Dabbs (1982). Varieties of Qalitative Research. Beverly Hills, Sage

Taking into account the period for data collection, questionnaire method helped the The researcher to get relevant and enough data within a short period of time. Adding to this, the other reason for administering questionnaires to shareholders was because the study wanted to provide a standard tool for interview in order to obtain objectivity and to facilitate analysis as well as to interpret data.

3.7.2 Face to face interview

Primary data were selected through Semi- structured interview was directed to bank officers of CRDB and NMB in order to get standard and more information concerning performance of their stocks/shares respectively. In relation to this, questions used for the interview contained same basic questions for respondents of both two banks. Interview was conducted in order to allow the flexibility to respondents as well the possibility of obtaining multiple responses for questions asked.

3.7.3 Documentary review

Secondary data were collected by going through financial statements of the banks, for the years 2007 to 2011, and other various written documents that contain materials relevant to this study. The major sources of secondary data for this study included published and unpublished materials like books, articles, journals etc. that were made available by Brokers, Banks and Internet. In addition, published workshop and seminar papers contained material pertinent to this study were also used.

3.8 Data Analysis Techniques

Raw data from the study were presented, in the next chapter, using charts, tables and graphs. The analysis of the findings used both quantitative and qualitative techniques. Quantitatively, averages, percentages, divisions, and multiplications were used. In this regard, Software Package for Statistical Science (SPSS) was used in most cases to carry out the analysis. On the other hand, narrative method was utilized to analyze qualitative data. This was assisted by pattern matching and comparison of data and information given by shareholders.

3.9 Reliability and Validity of Data

3.9.1 Reliability of Data

STEPS : SELECTION OF RESPONDENTS.

DATA COLLECTION

Reliability of data refers to the consistence to which repeated measures product the same result across time and across observers (Patton, 2002). In order to make the results of this study unchanged and reliable in case other, The researchers decide to conduct the same study by using the same research methods and techniques; questionnaire and interviews administered to shareholders of the two banks executive respectively were uniform according to each unit of respondents. As regard to questionnaire, reliability was achieved through a pre-testing done by the The researcher that facilitated respondents to understand the question in the same way.

3.9.2 Validity of Data

Validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure (Campbell & Stanley,1996)

Validity in this study was improved by the following:

- Collecting data and information from various units, i.e shareholders, brokers and bank executives.
- Collection of data and information using multiple method

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter answers the study objectives based upon the methodology discussed in chapter three, which covers general description of data processing, data analysis and findings. To make this comprehensible, the chapter focused on the following objectives:

1. To examine the trend of profitability, Assets Utilization and Leverage/Debt ratios, of listed companies (CRDB and NMB)

2. To find out market capitalization of CRDB and NMB over the period of time

3. To investigate challenges facing DSE

In analyzing these two Banks the researcher calculated some ratios and observed different trends in different ratios of these Banks. The findings of this study are presented in this chapter. The findings presented were analyzed to answer the research questions. Since banking industry attract long-term investments, the ratios important to reflect security of funds invested, efficiency use of assets and financial stability are used so as to guard the concept of shareholders wealth maximization

For the purpose of this research, the researcher selected and used the three categories of ratios, which are; - Profitability ratios, Leverage ratios and Activity ratios.

4.1 Profitability Ratios

4.1.1 Earnings Per Share

Earnings -per share = Total Earning /Total no. of Shares Outstanding

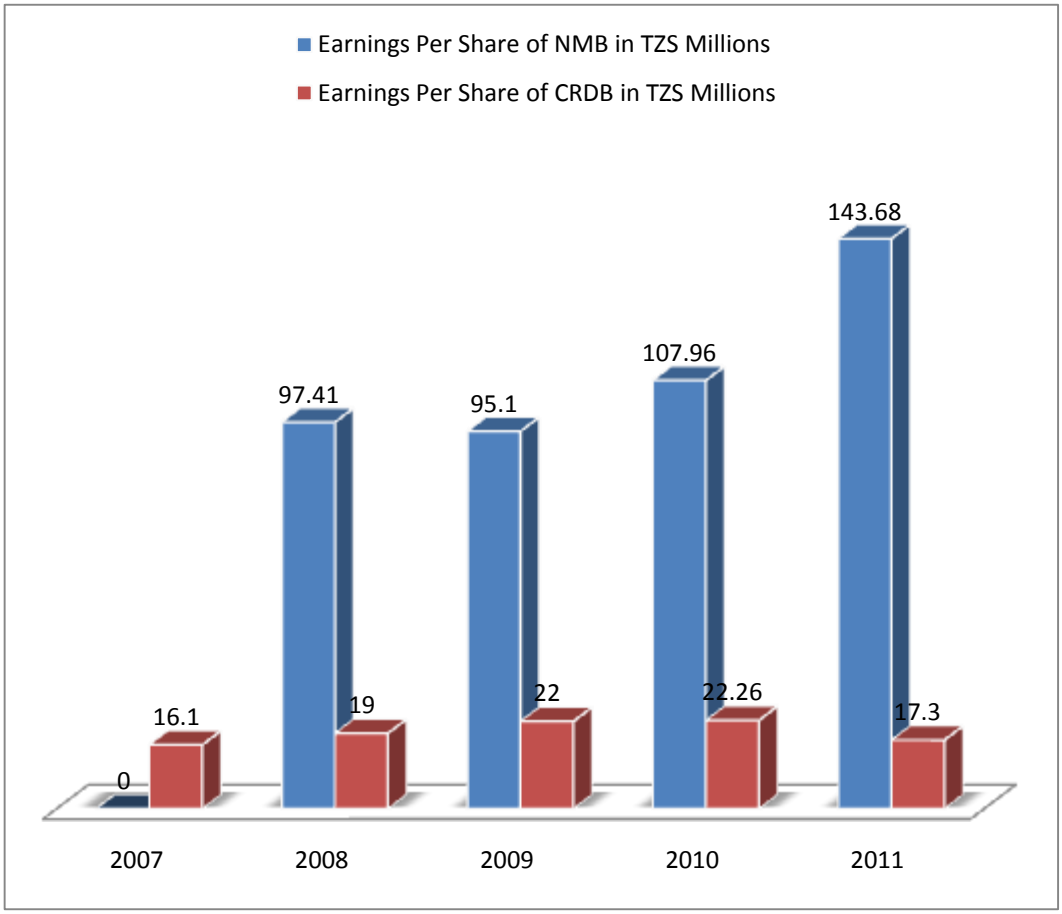
The table and figure below indicates that, in the year 2007, CRDB Bank had higher Earnings Per Share than NMB. Its amount went on increasing continuously up to the year 2010, then in the year 2011, the value dropped from 22.3, in the year 2010 to 17.3 in the year 2011. As for NMB, its Earnings Per Share has been insignificant in the year 2007, but the value rapidly increased in the year 2008, but dropped a bit in the year 2009, afterwards Earnings Per Share kept increasing, from 95.1 in the year 2009 to 143.7 in the year 2011.

Table 1 Earnings Per Share of CRDB and NMB

Years	Earnings Per Share of CRDB in TZS Millions	Earnings Per Share of NMB in TZS Millions
2007	16.1	0
2008	19	97.41
2009	22	95.10
2010	22.26	107.96
2011	17.3	143.68

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 2. Earnings Per Share of CRDB and NMB



Source: Annual Financial Statements of CRDB and NMB(2007-2011)

- **Interpretation of the Ratio**

Earnings Per Share (EPS) is the ratio used in measuring the profitability of the shareholder's investment. It simply shows the profitability of the firm on a per –share basis, it does not reflect how much is paid as dividend and how much is retained. Earnings Per Share calculations made over the years indicate whether or not the firm's earnings power on Per- Share basis has changed. In the case above, it shows that generally NMB's Earnings power is higher than CRDB's and so NMB has a better profitability because a single share of NMB earns more cash than a share of CRDB.

4.1.2 Dividend Yield

Dividend Yield = Dividend per share/Market Value Per Share.

Note: The Market value for NMB share as 18th June 2011 was 930 Tsh. Per share

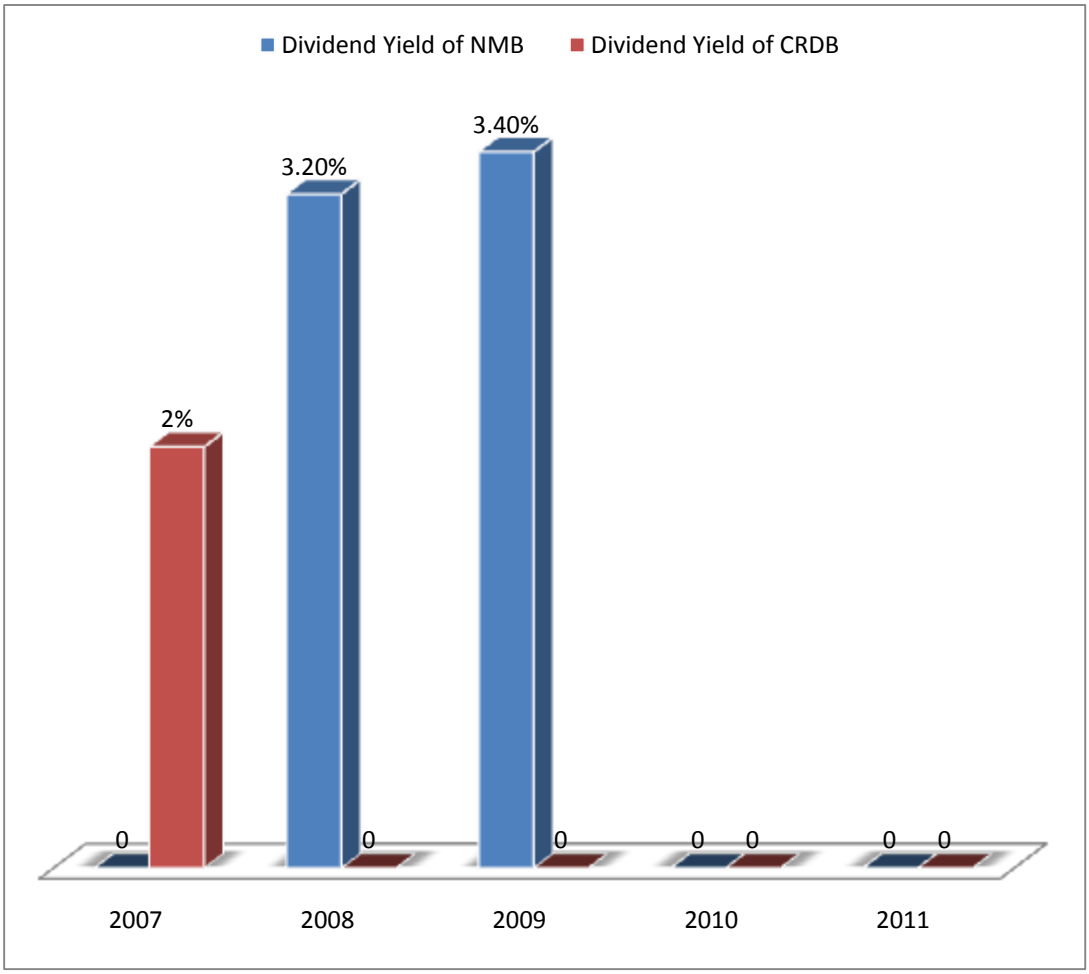
The Market value for CRDB share as at 18th June 2011 was Tsh 122 Per share.

It is shown below that the dividend yield of CRDB was 2% in the year 2007, and insignificant amounts for the rest of the years remaining up to the year 2011. However, NMB indicates a dividend yield of 3.2% in the year 2008, which also increased to 3.4% in the year 2009. It as well indicates an insignificant amount of dividend yield in the year 2007,2010 and the year 2011. Generally, for the past two years, 2010 and 2011 both bank stocks generated an insignificant amount of dividend yields.

Table 2: Dividend Yield for CRDB and NMB

Year	Dividend Yield of CRDB	Dividend Yield of NMB
2007	0.2	0
2008	0	0.032
2009	0	0.033
2010	0	
2011	0	

Figure 3 Dividend Yield for CRDB and NMB



Source: Annual Financial Statements of CRDB and NMB (2007-2011)

- **Interpretation of the Ratio**

Dividend Yield is the ratio that evaluates shareholder's return in relation to the market value of the share. Like Dividend Yield, the Earnings Yield also serves the same purpose. The information on the market value per share is not generally available from the financial statements; it has been collected from external source. The Orbit Securities (share brokers) provided this information.

From the above figure it is shows that, generally the banks generated low dividend yield over the years, and recently, they both generated an insignificant dividend yield. This means that, the shareholder's return in relation to the market value is very low for both banks, although NMB's is slightly better. With this, both banks do not stand in a better chance to attract investors.

4.1.3 Price Earnings Ratio

Price Earnings ratio= Market value per share/ Earnings Per Share.

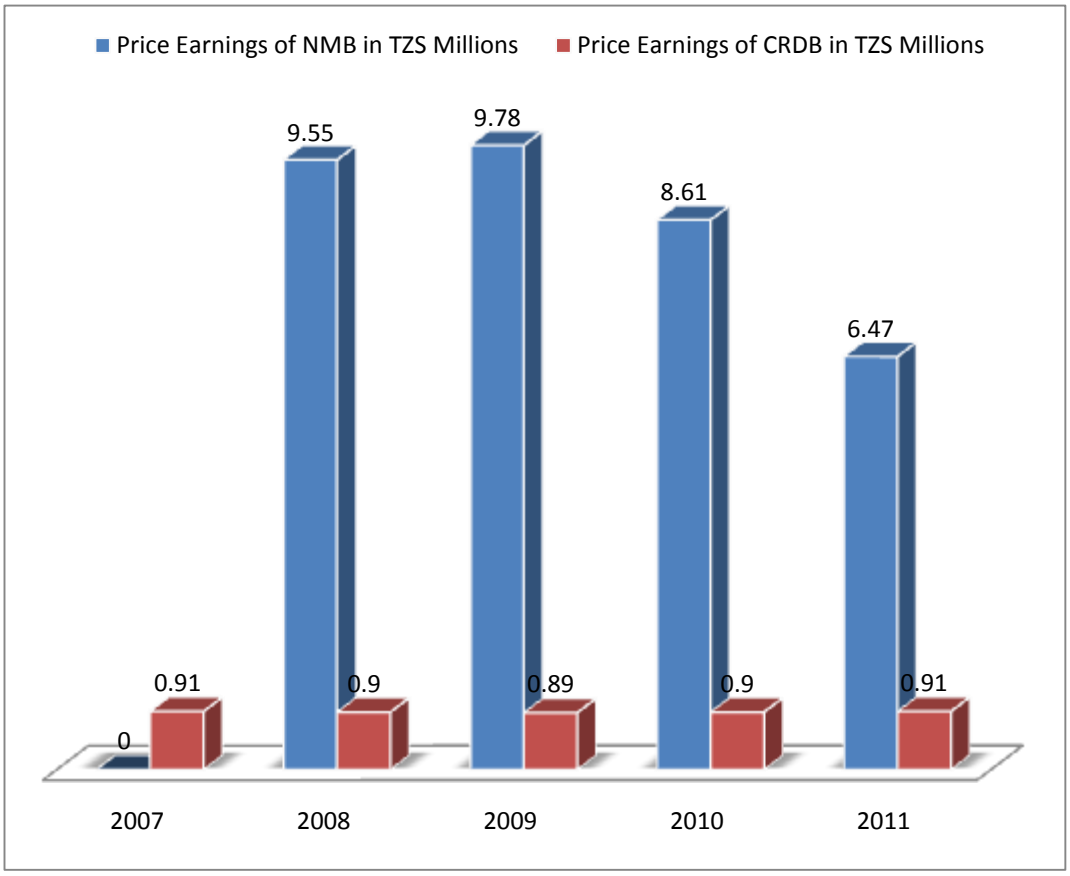
The table 3and figure4 below indicates that, for CRDB Bank, the Price Earnings has been 0.9 in the year 2007, this amount dropped insignificantly in the year 2008 to the year 2009 and then recovered its previous value of 0.91 in the year 2011. As for NMB, the value was insignificantly low in the year 2007 but the amount increased rapidly in the year 2008 and 2009, then the amount kept decreasing significantly in the year 2010 and the year 2011.

Table 3 Price Earning for CRDB and NMB Bank

Years	Price Earning of CRDB in TZS Millions	Price Earnings of NMB in TZS Millions
2007	7.577	0
2008	6.421	9.55
2009	5.545	9.78
2010	5.495	8.61
2011	7.052	6.47

Source: Annual Financial Statements of CRDB and NMB(2007-2011)

Figure 4 Price Earning for CRDB and NMB Bank



Source: Annual Financial Statements of CRDB and NMB (2007-2011)

- **Interpretation of the Ratio**

Price Earnings Ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investor's judgement or expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. So, it reflects investors' expectation about the growth in the firm's earnings. In the case above it shows that, investors have higher expectation about the NMB's Earnings growth than for CRDB.

4.1.4 Gross Profit Margin Ratio

Gross Profit Margin= Sales- Cost of Goods sold/Sales

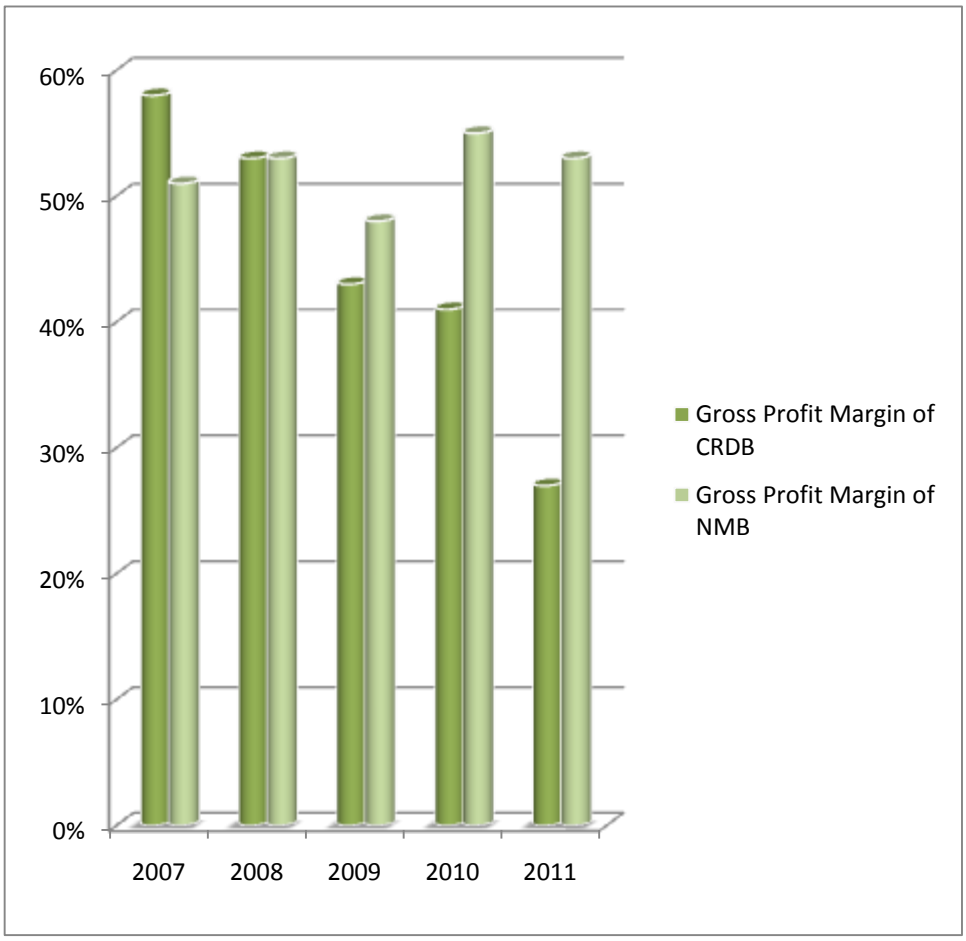
It is indicated below that the profitability ratios of CRDB was highest in the year 2007, where it attained 58%. The value went on decreasing from 53% in the year 2008 to 43%, 41% and 27% in the years 2008, 2009, 2010 and 2011 respectively. On the other hand, the profitability of NMB was 51% in the year 2007, and increased to 53% in 2008, then the value declined to 48% in the year 2009, it then jumped to 55% and dropped to 53% in the years 2010 and 2011 respectively.

Table 4 Gross Profit Margin of CRDB

Years	Gross profit margin of CRDB in Tsh.'000' '000'	Gross profit margin of NMB in Tsh.'000' '000'
2007	0.58=58%	0.50=50.75%
2008	0.53=53%	0.57=52.73
2009	0.43=43%	0.48=48.13%
2010	0.41=41%	0.55=55.4%
2011	0.27=27%	0.53=53.25%

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 5 Gross Profit Margins of NMB and CRDB Bank



Source: Annual Financial Statements of CRDB and NMB (2007-2011)

- **Interpretation of the Ratios**

Gross Profit Margin Ratio is the first profitability ratio in relation to sales. The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio indicates the average spread between the cost of goods sold and the sales revenue. A high gross profit margin ratio is a sign of good management. A gross margin ratio may increase due to any of the following factors.

i. Higher sales prices, cost of goods sold remaining constant
ii. Lower cost of goods sold, sales prices remaining constant,
iii. A combination of variations in sales prices and costs, the margin widening, and
iv. An increase in proportionate volume of higher margin items.

The analysis of these factors will reveal to the management how a depressed gross profit margin can be improved. A low gross profit margin may reflect higher cost of goods sold due to firm's inability to purchase raw materials at favorable items, inefficient utilization of plant and machinery or over-investment in plant and machinery, resulting in higher cost of production. The ratio will also be low due to a fall in prices in the market, or marked reduction in selling price by firm in an attempt to obtain large sales volume, the cost of goods sold remaining unchanged. The financial manager must be able to detect the causes of a falling gross margin and initiate action to improve the situation. In an overall judgment, both banks are doing relatively well, meaning that they are well managed, although in the recent years, 2009,2010 and 2011 NMB has been doing better than CRDB Bank, reflecting better management of the bank stocks.

4.1.5 Return of Investment (ROI)

Return on Investment (ROI) =ROTA=EBIT (1-T)/Total Assets.

Where T= Tax

NOTE: All Listed Companies are taxed at 25%

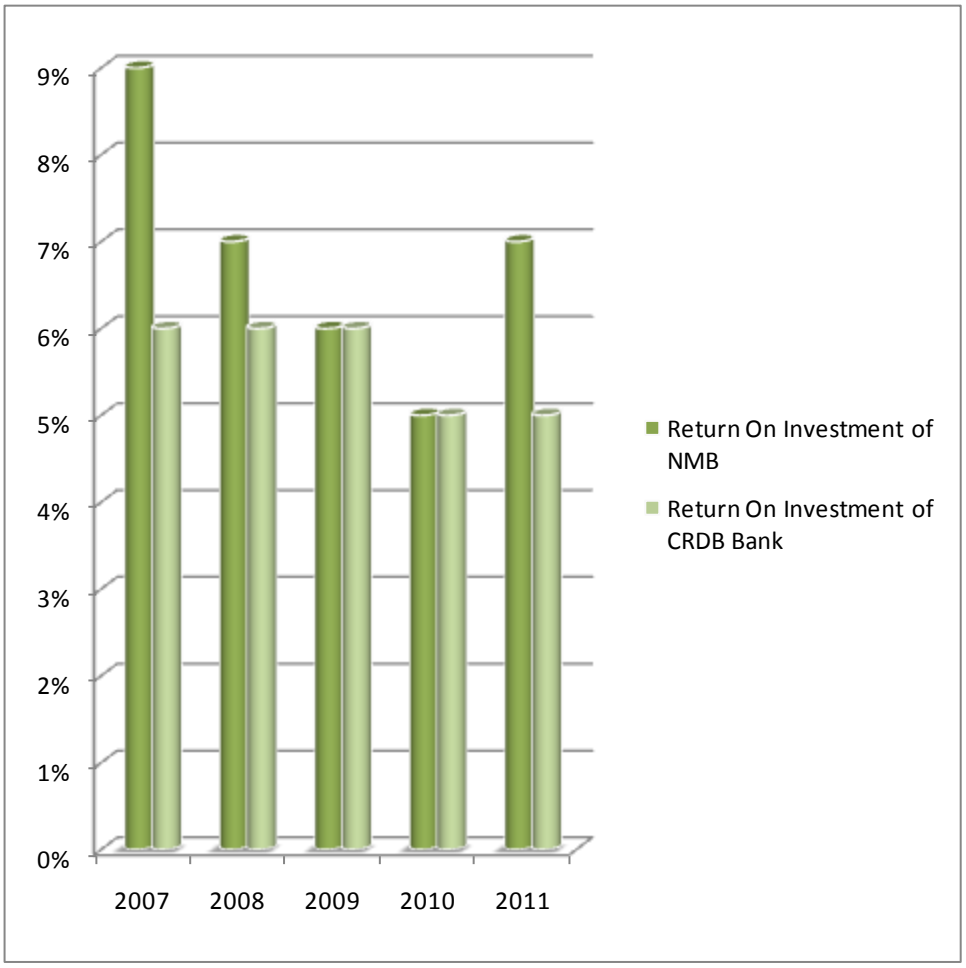
The following table and figure shows that CRDB Bank had a constant Return On Investment (ROI) of 6%, for three consecutive years of 2007, 2008 and 2009 and also it maintained a Return On Investment of 5% for the years 2010 and 2011. On the other hand, NMB has been having a fluctuating Return On Investment of 9% for the year 200, ROI of 7% in the year 2008, ROI of 6% in the year 2009 and ROI of 5% and 7% for the years 2010 and 2011 respectively.

Table 5 Return on Investment of NMB and CRDB Bank

Years	Return on Investment of NMB	Return on Investment of CRDB Bank
2007	0.09=9%	0.06=6%
2008	0.07=7%	0.06=6%
2009	0.06=6%	0.06=6%
2010	0.05=5%	0.05=5%
2011	0.07=7%	0.05=5%

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 6 Return on Investment of NMB and CRDB Bank



Source: Annual Financial Statements of CRDB and NMB(2007-2011)

- **Interpretation of the Ratio**

If someone buy an asset of any sort, his/her gain (or loss) from that investment is called the return on investment. This return will usually have two components. First, one may receive some cash directly while owning the investment. This is called the income component of one's return. Second, the value of the asset one purchase will often change, in this case, one have a capital gain or capital loss on his/her investment.

The term investment may refer to total assets or net assets. The funds employed in the Net Assets are known as capital employed. Net assets equal net fixed assets plus current assets minus current liabilities excluding bank loan. Alternatively, capital employed is equal to net worth plus total debt. In the case above it is shown that NMB has a higher Return On Investment than CRDB Bank, although in few cases like in the years 2009 and 2010 it had the same values as those of CRDB Bank, which is 6% and 5% Return on Investment respectively.

This shows that NMB has a higher total assets or net assets than CRDB and therefore is most likely to collect higher return from those investments during the times of good economic activities. Furthermore, CRDB's Return on Investment is constant for the three years of 2007, 2008 and 2009 which means that the bank is maintaining the same amount of assets over the years, which also seems to be reducing with time as it shows in the years 2010 and 2011 when the values dropped to 5%. Unlike NMB which is having a fluctuating amount of total assets or net assets, although sometimes the value goes down it raised again from time to time, showing flexibility in the number of assets that NMB owns, it also indicates the possibility of growth in income if all the assets would be well utilized.

4.1. 6 Return on Equity (ROE)

Return On Equity =Net Profit After Tax/shareholder's Equity

Also ROE = Net Income/Total Assets

Note: shareholder's equity =net worth.

The figure below indicates the Return On Equity of CRDB Bank has been higher than that of NMB Bank for two years, 2007 and 2008, where its value of ROE was 36% and 29% respectively. Afterwards, the value of ROE of CRDB went down to

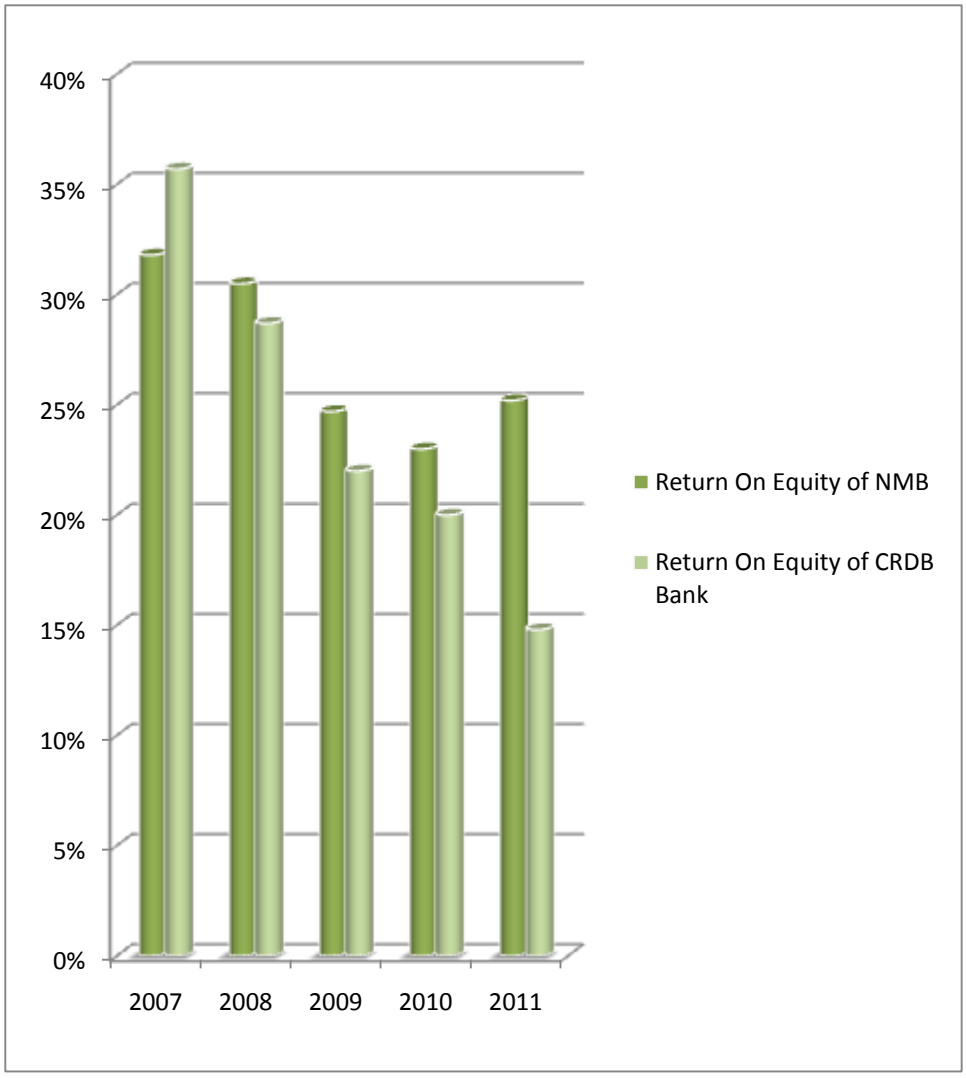
22%, 20% and 15% for the three remaining years2009, 2010 and 2011 respectively. Meanwhile, the value of ROE for NMB was at its highest in the year 2007 where it attained 32%, the value started going down to 31%,25%, and 23% in the years 2008,2009 and 2010 respectively. It also raised to 25% in the year 2011.

Table 6 Return on Equity of NMB and CRDB Bank

Years	Return on Equity of NMB	Return On Equity of CRDB Bank
2007	32%	36%
2008	31%	29%
2009	25%	22%
2010	23%	20%
2011	25%	15%

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 7 Return on Equity of NMB and CRDB Bank



Source: Annual Financial Statements of CRDB and NMB. (2007-2011)

- **Interpretation of Ratio**

Common or ordinary shareholders are entitled to the residual profits. The rate of dividend is not fixed; the earnings may be distributed to shareholders or retained in the business. Nevertheless, the net profits after taxes represent their return. A return on shareholders' equity is calculated to see the profitability of owners' investment. The shareholders' equity or net worth will include paid-up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be

found by subtracting total liabilities from total assets. ROE indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of a satisfactory return is the most desirable objective of a business.

The ratio of net profit to owners' equity reflects the extent to which this objective has been accomplished. This ratio is, thus, of great interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximising the owners' welfare. The return on owners' equity of the company may be compared with the ratios for other similar companies and the industry average. This will reveal the relative performance and strength of the company in attracting future investment.

As for the above case, both banks seems to be doing well in this ratio, except that in the years 2007 and 2008 CRDB Bank has been used better the resources of its owners than NMB, but again, NMB did better than CRDB Bank in the years 2009 and 2010 and 2011. Therefore, recently, NMB stands in a better position in attracting more investors, than CRDB Bank by making better use of owners's resources, than CRDB Bank.

4.2 Leverage Ratios

4.2.1 Debt to Equity Ratio

Debt –Equity Ratios = Total Debt/Total Equity

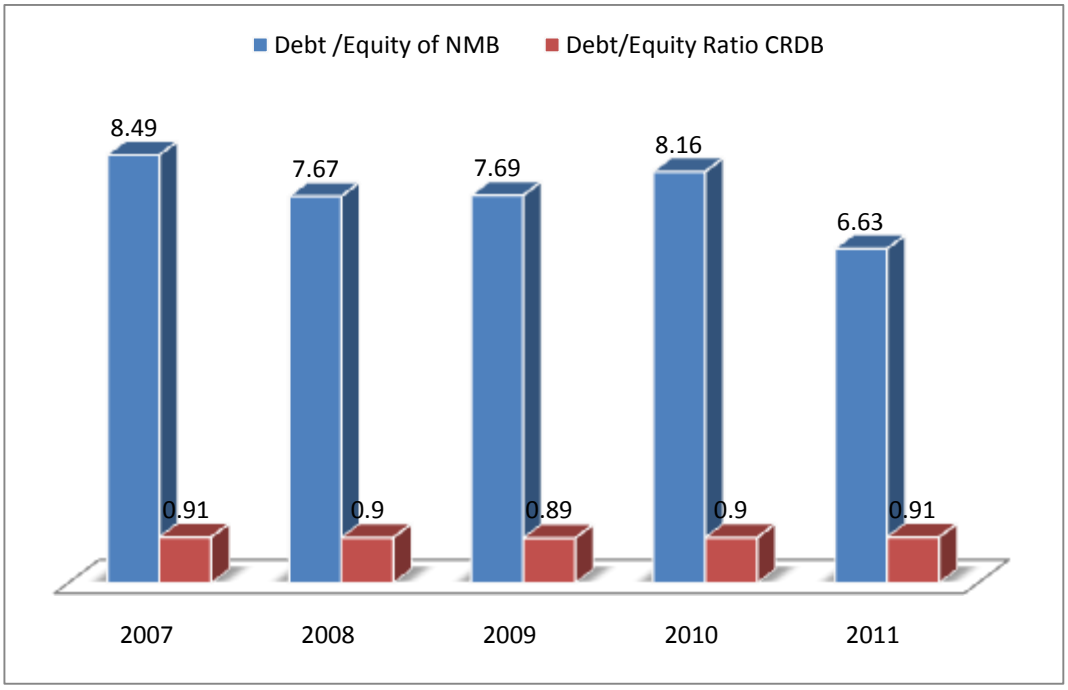
It is observed from the table7 and figure 8 below that the Debt-Equity ratios of CRDB has been constant in the years 2007 and 2008, then it decreased by 0.1 in the year 2009, and again back to 0.9 for the years 2010 and 2011. On the other hand, NMB had a Debt –Equity of 8.49 in the year 2007, and a constant of almost 7.7 Debt-Equity for the years 2008 and 2009, then the value went up to 8.2 in the year 2010 then it went down to 6.6 in 2011.continually in the years 2009 and 2010 and again raised in the year 2011.

Table 7 Debt –Equity of CRDB and NMB

Years	Debt/Equity Ratio of NMB in TZS Millions	Debt/Equity Ratio CRDB in TZS Milions
2007	8.49	0.91
2008	7.67	0.90
2009	7.68	0.89
2010	8.16	0.90
2011	6.63	0.91

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 8 Debt- Equity Ratios of NMB and CRDB



Source: Annual Financial Statements of CRDB and NMB (2007-2011)

- **Interpretation of the Ratio**

This ratio is used to judge the long-term financial position of the firm, financial leverage, or capital structure, to indicate mix of funds provided by owners and lenders. As a general rule, there may be an appropriate mix of debt and owner's equity in financing the firm's assets. The manner in which assets are financed has a number of implications:-

First, between debt and equity, debt is more risky from firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit made or losses incurred by the firm. If the firm fails to pay debt holders in time, they can take legal action against it to get payments and in extreme cases, can force the

firm into liquidation. Second, use of debt is advantageous for shareholders in two ways;-

a) They can retain control of the firm with a limited stake and

b) Their earning will be magnified, when the firm earns a rate of return on the total capital employed higher than the interest rate of the borrower funds. This process of magnifying the shareholders' return through the use of debt is called 'financial leverage' or financial gearing' or 'trading on equity'

However, leverage can work on opposite direction as well. If the cost of debt is higher than the film's overall rate of return, the earnings of shareholders will be reduced. In addition, there is threat of insolvency. If the firm is actually liquidated for non-payment of debt-holders' dues, the worst suffers will be shareholders – the residual owners. Thus, use of debt magnifies the shareholders' earnings as well as increases their risk.

Third, a highly debt-burdened firm will find difficulty in raising funds from creditors and owners in future. Creditors treat the owners' equity as a margin of safety; if the equity base is thin, the creditors risk will be high. Thus, leverage ratios are calculated to measure the financial risk and firm's ability of using debt to shareholders advantage.

Leverage ratios can also be computed from the profit and loss items by determining the extent to which operating profit are sufficient to cover the fixed charges. In the above case, Debt ratio shows the extent to which debt financing has been used in business. A high ratio means that claims of creditors are greater than those of

owners. A high level of debt introduces inflexibility in the firm's operations due to the increasing interference and pressures from creditors.

A low Debt – Equity ratio implies a greater claim of owners than creditors. From the point of view of creditors, it represents a satisfactory situation since a high proportion of equity provided a larger margin of safety for them. During the period of low profits, the debt servicing will prove to be less burdensome for a company with low debt-equity ratio. However, from the shareholders' point of view, there is a disadvantage during the periods of good economic activities if the firm employs a low amount of debt.

The higher the debt-equity ratio, the larger the shareholders' earnings when the cost of debt is less than the firms' overall rate of return on investment. Thus, there is a need to strike a proper balance between the use of debt and equity. the most appropriate debt-equity combination would involve trade-off between return and risk.

As for the above figure, NMB Bank is using more debts in financing its assets and operations as a whole. This means that, it promises larger shareholders' earnings than CRDB which has a low debt-equity ratio, as long as the cost of debt is less than the firm's overall rate of return on investment. However, NMB shares bear a higher financial risk and market risk than CRDB. Debt ratio shows the extent to which debt financing has been used in business. A high ratio means that claims of creditors are greater than those of owners. A high level of debt introduces inflexibility in the firm's operations due to the increasing interference and pressures from creditors. Therefore, NMB is more debt-burdened than CRDB, and it may find it so difficult in raising funds from creditors and owners in the future, because creditors treat owners

as their margin of safety, if the equity base is thin,(very low contribution of the owners), creditors risk will be high and most of them will avoid that by not investing their money.

However, although CRDB Bank is less debt-burdened is a disadvantage from the shareholders' point of view, because during the periods of good economic activities, the firm will not be having an additional fund to take full advantage of the situation and grab all the opportunities that that fund could buy. Although between debt and equity debt is more risky from the firm's point of view, it is better to strike a proper balance between the use of debt and equity, because a good combination would involve a trade- off between return and risk, instead of only using larger amount of owner's funds.

Generally, NMB promises higher return during periods of good economic activities, but bears a high risk, and it is more debt-burdened than CRDB Bank, and so it may find it difficult to raise funds in the future. CRDB has a higher equity base which will attract creditors to invest in it in the future times, but it has the disadvantage from the shareholder's point of view, because during the periods of good economic activities the firm will not be having an additional funds to take full advantage of the situation in grabbing the opportunities available, as NMB will do.

4.3 Activity Ratios

4.3.1 Total Asset Turnover

Total Asset Turnover =Total Sales/Total Assets

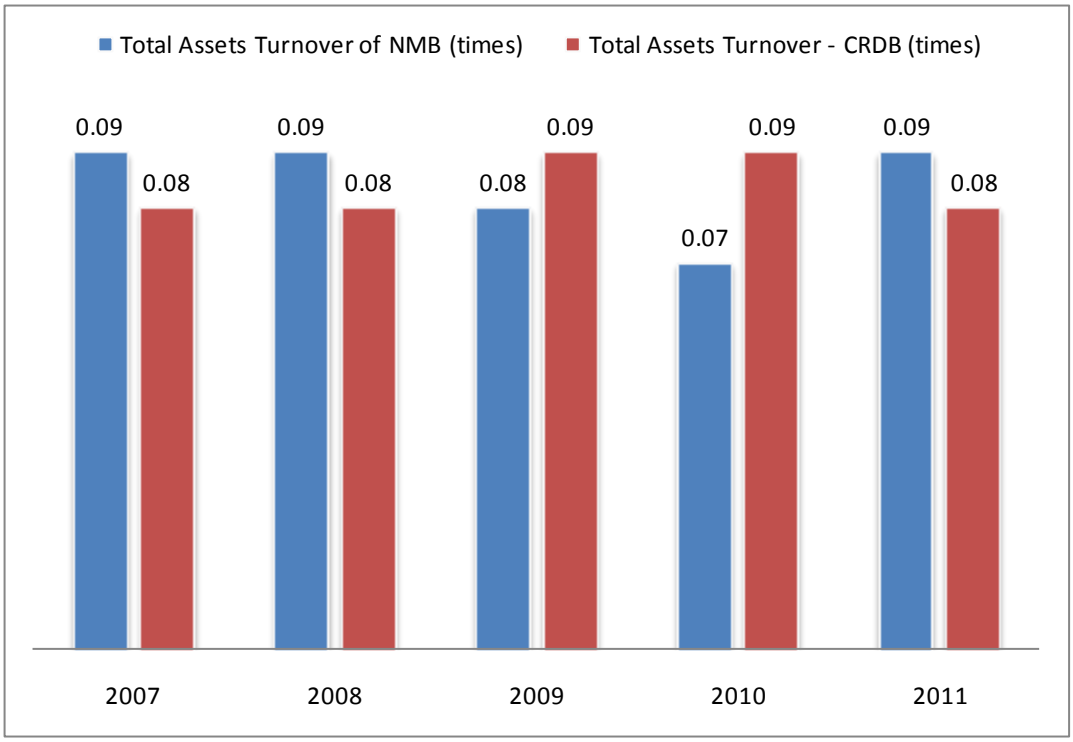
It is clearly shown in the above graphs that Total Assets turnover of NMB has been high and constant for the two years 2007 and 2008, then the value went down in the year 2009 where it was 0.08 and in 2010 the value dropped again to 0.07,recovered its previous value of 0.09(times) in the year 2011. As for CRDB Bank it had a Total Asset Turnover of 0.08 (times) in the years 2007 and 2008, then it jumped to the 0.09 in the years 2009 and 2010 and eventually dropped to its previous value of 0.08 in the year 2011.

Table 8 Total Assets Turnover of NMB and CRDB

Years	Total Assets Turnover of NMB (times)	Total Assets Turnover - CRDB (times)
2007	0.09	0.08
2008	0.09	0.08
2009	0.08	0.09
2010	0.07	0.09
2011	0.09	0.08

Source: Annual Financial Statements of CRDB and NMB (2007-2011)

Figure 9 Total Assets Turnover of NMB and CRDB Bank.



Source: Annual Financial Statements of CRDB and NMB (2007-2011)

- **Interpretation of the Ratio**

Assets are used to generate sales. Therefore, a firm may manage its assets efficiently to maximize sales. A firm's ability to produce a large volume of sales for given amount of net assets is the most important aspect of its operating performance. Unutilized or under-utilised assets increase the firm's need for costly financing as well as expense for maintenance and upkeep. However, the net assets turnover may be interpreted cautiously. The net assets in the denominator of the ratio include fixed assets net of depreciation. Thus old assets with lower book (depreciated) values may create a misleading impression of high turnover without any improvement in sales.

Some analyst exclude intangible assets like goodwill, patents etc. while computing the net assets turnover. Similarly, fictitious assets, accumulated losses or deferred expenditures may also be excluded for calculating the net assets turnover ratio. For the sake of this study, the researcher decided to compute the total assets turnover in addition to or instead of the net assets turnover, because this ratio shows the firm's ability in generating sales from all financial resources committed to total assets.

In the figure above, both banks seems to be utilizing its assets almost at the same level, like in the years 2007 and 2008 NMB utilized its assets more than CRDB Bank meaning that it had more ability to produce a large volume of sales for a given amount of net assets. However, in the years 2009 and 2010 CRDB Bank had a higher Total Assets Turnover ratio implying that it also had a higher ability to generate sales for a given amount of net assets than CRDB Bank. Recently in the year 2011 NMB had managed to again generate more sales than CRDB Bank, by having a ratio of 0.09, but generally both banks are performing well in this area.

4.4 Market Capitalization

Market Capitalization = no. of stocks in Dar es Salaam stock of Exchange x current market price of share

Note:

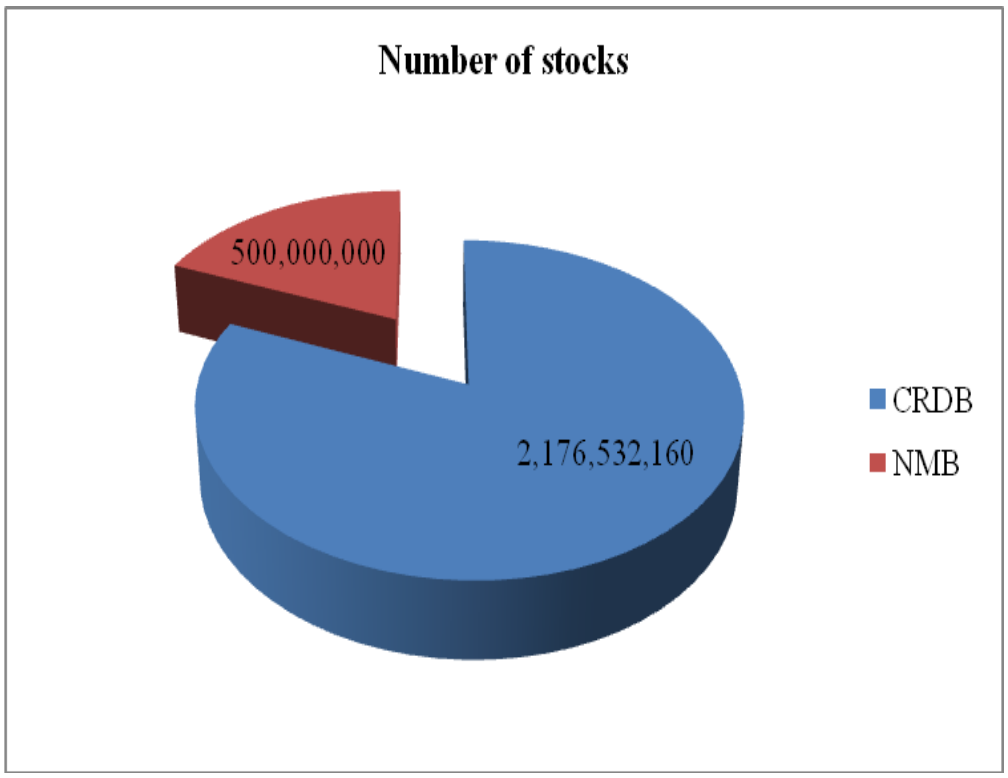
The Market Price of Shares of CRDB Bank as on 30th July, 2012was Tsh 110

The Market Price of Shares of NMB as on 30th July,2012 wasTsh.930

Total Number of CRDB Stock = 2,176,532,160

Total Number of NMB Stock = 500,000,000

Figure 10 Number of Stocks of NMB and CRDB Bank.



4.4.1 Market Capitalization of CRDB

Current market price =Tsh.110 per share

No. of Stocks, issued and fully paid =122x 2,176,532,160

Market Capitalization =110 x 2,176,532,160

=Tsh. 2.39418 x 10^{11}

4.4.2 Market Capitalization of NMB

No of stocks issued and fully paid =500,000,000

Current share price as at 31st July, 2012 = 930

Market Capitalization =500,000,000x930

=Tsh.4.65x10 ^{11}

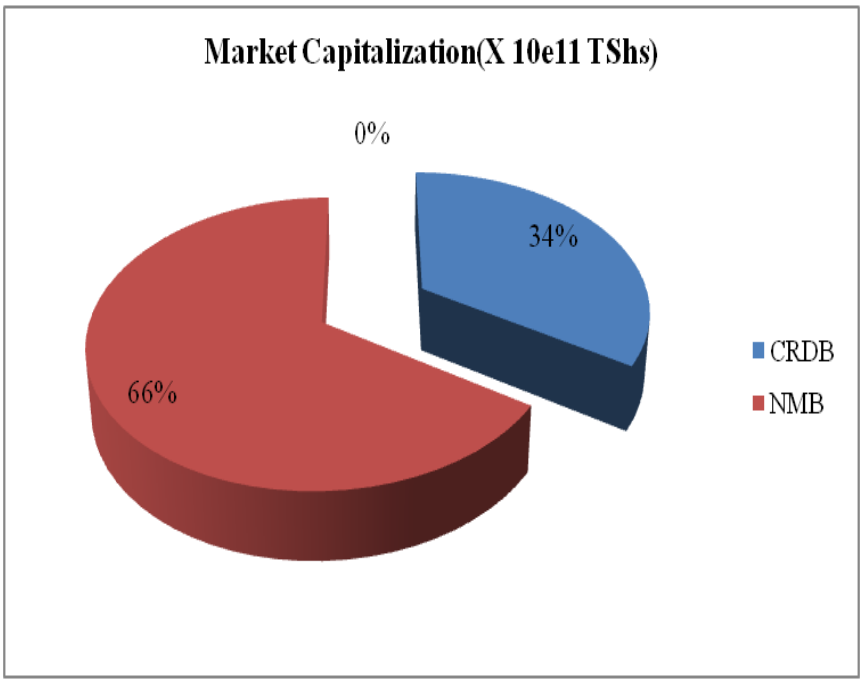
So, as it shows above the NMB Bank has a bigger Market Capitalization than CRDB Bank, although CRDB has a bigger market shares, its shares are traded at a lower price than those of NMB.

Table 9 Market Capitalization of NMB and CRDB Bank.

Market Capitalization of NMB Tsh.	Market Capitalization of CRDB Bank Tsh.
Tsh. 4.65x10 ^{11}	=Tsh 2.39418 x 10^{11}

Source: May 2012 Market Overview – Financial Markets in Tanzania

Figure 11 Market Capitalizations of NMB and CRDB Bank.



Source: May 2012 Market Overview – Financial Markets in Tanzania

It is shown from the table above that, NMB's Market Capitalization, is higher than CRDB Bank's Market Capitalization.

NOTE: Domestic Market Capitalization as at 31 May 2012, Tshs 2,519.70bln (BOT mean rate 1,570.72)[31]

- A proportion of CRDB Bank's Market Capitalization to the Domestic Market Capitalization= Tsh. 2.39418×10^{11}
- A proportion of NMB's Market Capitalization to the Domestic Market Capitalization = Tsh. $.4.65 \times 10^{11}$

From the above computation, the results shows that NMB's contribute more to the Domestic Market Capitalization than CRDB Bank.

4.5 Challenges Facing DSE

Despite the success enumerated above, the Exchange is still facing a number of challenges including financial sustainability mainly due to

- Low volume of transactions and limited products that are traded. Listing of more companies on the DSE could be one of the solutions to the current illiquidity.[32] There is a very low participation of local participants, and only few people involve themselves in security business, which lead to illiquidity of DSE
- Limited foreign ownership, which currently is 60%. If more foreign companies would join in they will trigger competition among the listed companies, if this

[31] May 2012 Market Overview – Financial Markets in Tanzania

[32] DSE Annual Report and Financial Statements for the year ended 30 June 2008

threshold could increase it will make DSE more vibrant and as well as attracting more participation.

However, Efforts are in place to launch a new market segment on which companies which fail to meet the current Main Investment Market segment listing requirements will be accommodated. Further, the DSE has plans to bring new products by introducing products like municipal and infrastructure bonds. 'We enter the new financial year with great confidence and optimism. A year ahead, being a final year of the implementation of the DSE Five Year Strategic Plan, I urge Management to put more efforts to ensure that more of the planned activities are underscored toward meeting the target of the said plan. The Council will give all necessary support towards achieving the objectives and it is expected that various stakeholders will to extend their support on the same'[33]

4. 6 Conclusion

This chapter has focused on the analysis of data and presentation of the research findings. It started with the use of ratio analysis to compare performances of the two banks, followed by the computation of Market Capitalization and lastly analysis of the challenges facing Dar –es –Salaam Stock Exchange. The following chapter will describe the summary, conclusion and recommendations for this study.

[33] DES Chairman's statement (Peter L.Machunde) in Annual Report and Financial Statements for the year ended 30 June 2008

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

After having discussed chapter four concerning the presentation and discussion of the findings, the following chapter (chapter V) provides an overview of the research findings. Also it presents the conclusions and recommendations of the study and lastly brainstorms the areas for further study.

5.1 Summary of the Study

This study was based on Comparative Analysis on Listed Stocks at the Dar-es-Salaam Stock Exchange, (DSE) using two commercial banks as a Case Study. Generally, the study analysed the performance of bank stocks in DSE. The specific objectives were to work out some financial ratios and compare both ratios of NMB and CRDB banks, to find out the Market Capitalization of both banks and lastly, to investigate the challenges facing DSE.

The sample size of 52 respondents was used. Methods used for data collection were interviews, questionnaires and documentary review. Software Package for Statistical Science (SPSS) was used for management and analysis of data. The study revealed that,both banks generate low dividend yields, with NMB having higher earnings power, gross profit margin and total assets turnover. It seems this bank is making better use of owners' resources.

The data shows that NMB Bank uses more debts in financing its assets. It recently managed to generate more sales and its Market Capitalization is higher than that of CRDB. Therefore, NMB contributes more to the domestic market capitalization. The challenges facing DSE include; low volume of

transactions and limited products traded causing illiquidity,[34] very low local participation, and .limited foreign ownership.

5.2 Conclusion

This chapter provides conclusion based on purpose of the study. It also summarizes the main findings from the evaluation on what can be done to enhance comparative analysis on a listed stock. The main purpose of the study was to work out some relative ratios of both CRDB and NMB. The study specifically focused on stocks analysis on the Banking sector. These Commercial banks in Dar-es-Salaam Stock of Exchange (DSE) are currently performing generally performing well.

The current market price of CRDB Bank is hovering between Tsh 122 to 125 and of NMB is hovering between Tsh 910 to 930. The researcher therefore, focused on three specific areas of Profitability, Leverage/Capital structure and Activity/efficiency in utilizing and management of Assets to generate sales. (Performance).During the analysis, the researcher computed some relative ratios. These ratios helped the researcher to know the financial health of these two banks. The ratios highlighted the performance of each bank in particular and give the first glimpse of financial situation and performance.

In particular the researcher worked out the Earning Per Share ratio, Dividend yield ratio, Price Earnings ratio, Gross profit margin ratios, Return On Investment, and Return On Equity for the profitability category of ratios, and also Debt to Equity ratio and Asset turnover ratios in the categories of Leverage and Activity Ratios

[34] DSE Annual Report and Financial Statements for the year ended 30 June 2008

respectively. Most of the computed ratios portrayed positive results to both banks which indicate that the Banks are performing well.

Findings revealed that, generally the banks generated low dividend yield over the years, and recently, they both generated an insignificant dividend yield. This means that, the shareholder's return in relation to the market value is very low for both banks, although NMB's is slightly better. With this, both banks do not stand in a better chance to attract investors. Earnings Per Share calculations made over the years indicate whether or not the firm's earnings power on Per- Share basis has changed.

In the case above, it shows that generally NMB's earnings power is higher than CRDB's and so NMB has a better profitability because a single share of NMB earns more cash than a share of CRDB. So, it reflects investors' expectation about the growth in the firm's earnings. In the case above it shows that, investors have higher expectation about the NMB's Earnings growth than for CRDB.

NMB may be the preference to investors looking for regular income as their profitability and payout ratio bode well with regular income investors.

The researcher also calculated the gross profit margin ratio, and it was indicated that almost the two banks have fairly profit margin although NMB seems to be a little bit higher than CRDB and as NMB showed a continuous decrease in the previous years it also showed an increase in the year 2011, reflecting better management of the bank stocks, while CRDB showed a continuous decrease up to the year 2011

The Return on Investment ratio showed that NMB has a higher total assets or net assets than CRDB and therefore is most likely to collect higher return from those

investments during the times of good economic activities. Furthermore, CRDB's Return on Investment was constant for the three years of 2007, 2008 and 2009 which means that the bank is maintaining the same amount of assets over the years, which also seems to be reducing with time as it shows in the years 2010 and 2011 when the values dropped to 5%.

In Return on Equity, both banks seems to be doing well, except that in the years 2007 and 2008 CRDB Bank has been used better the resources of its owners than NMB, but again, NMB did better than CRDB Bank in the years 2009 and 2010 and 2011. Therefore, recently, NMB stands in a better position in attracting more investors, than CRDB Bank by making better use of owner's resources, than CRDB Bank.

The ratio of Debt –equity revealed thatNMB Bank is using more debts in financing its assets and operations as a whole. This means that, it promises larger shareholders' earnings than CRDB which has low debt-equity ratios, as long as the cost of debt is less than the firm's overall rate of return on investment. However, NMB shares bear a higher financial risk and market risk than CRDB. Debt ratio shows the extent to which debt financing has been used in business.

NMB's high ratio means that claims of creditors are greater than those of owners, and this introduces inflexibility in the firm's operations due to the increasing interference and pressures from creditors. Therefore, NMB is more debt-burdened than CRDB, and it may find it so difficult in raising funds from creditors and owners in the future, because creditors treat owners as their margin of safety, if the equity base is thin, because of high debt,(very low contribution of the owners), creditors risk will be high and most of them will avoid that by not investing their money.

However, although CRDB Bank is less debt-burdened is a disadvantage from the shareholders' point of view, because during the periods of good economic activities, the firm will not be having an additional funds to take full advantage of the situation and grab all the opportunities that that an additional funds could buy. In Total asset turnover ratio both banks seems to be utilizing their assets almost at the same level, like in the years 2007 and 2008 NMB utilized its assets more than CRDB Bank meaning that it had more ability to produce a large volume of sales for a given amount of net assets.

However, in the years 2009 and 2010 CRDB Bank had a higher Total Assets Turnover ratio implying that it also had a higher ability to generate sales for a given amount of net assets than NMB Bank. Recently in the year 2011 NMB had managed to again generate more sales than CRDB Bank, by having a ratio of 0.09, but generally both banks are performing well in this area.

The computation of Market Capitalization revealed that, NMB's Market Capitalization, is higher than CRDB Bank's Market Capitalization. Furthermore, the results shows that NMB's contribute more to the Domestic Market Capitalization than CRDB Bank and therefore, NMB is more likely to attract more investors than CRDB.

The researcher also found the challenges facing DSE which are low volume of transactions and limited products that are traded, where Listing of more companies on the DSE could be one of the solutions to the current illiquidity.[35] There is a very low participation of local participants, and only few people involve themselves in security business, which lead to illiquidity of DSE. Limited foreign ownership,

[35] DSE Annual Report and Financial Statements for the year ended 30 June 2008

which currently is 60%. If more foreign companies would join in they will trigger competition among the listed companies, if this threshold could increase it will make DSE more vibrant and as well as attracting more participation. Note however that these results in this study are only quantitative and they are highly dependent on the assumptions put forward by the researcher going forward, some unforeseen events can drastically change the forecasted variables.

An investor may therefore investigate other quantitative issues that are likely to influence the performance. It is very difficult for ratio analysis to capture every variable. It is here where art of science apply to arrive at informed decision.

5.3 Recommendations

With regards to the findings discussed above, the study recommends the following to various stakeholders in the stock exchanges especially those trading on DSE

Firstly, the researcher recommends that investors may invest in these two banks, as there is a room to profit. As it revealed in the study that these Commercial banks have fairly market price, which indicate that one can easy invest and be assured to profit from it.

Secondly, the researcher recommends that investors and other researcher to conduct a research on stock analysis, but extend it further to computation and analysis of the intrinsic values, of these banks or other listed companies. This is to enable them to know the performance of the various companies in the stock market as well as knowing the intrinsic value of them.

Thirdly, the researcher is convinced that the stock market is not active. The researcher strongly recommends that the Dar-es-Salaam Stock Exchange may greatly increase the number of participation of foreigners and local people in the stock market. If this is implemented it will activate the market, as allowing foreign participation will boost these companies by increasing competition hence share values gradating to its real value.

Lastly, the banking sector plays a major role in the development and growth of our economy. It is highly required in saving and credit facilities so, this clearly substantiate that the banking industry may increasingly expand production capacity in order to meet the needs of consumers and also provide for services in the neighboring countries including Republic of Congo, Rwanda and Uganda

5.3 Limitations of the Study

Due to time constrain, the study was conducted basing on the financial performance of only two commercial banks, it is deemed that if more commercial banks were involved in the study, some rich findings could have been obtained. In addition to that, the study was conducted by considering the financial statements of five years, using cross-section approach. It could be more interesting if more time was available for the researcher to involve more data from previous years and forecast others so as to see at a glance the trends of financial performance of each bank.

The availability of data was not very easy, and since few data was released to the researcher in different days, where also the price of stocks changes almost every day, at DSE, the researcher had to use different share prices in computation of market

capitalization, because the data for this particular aspect was lastly obtained, the researcher did this in trying to reflect the real scenarios at particular time.

Lastly, financial constraint also forced to researcher to hasten some of the data collection methods, especially the interviews, so as to reduce the cost of staying in Dar-es-Salaam as she is based in Dodoma region. This denied the researcher ample time with the interviewee who could provide crucial information that could positively impact the study. So some of the data collection had to be done through phone conversations.

5.4 Areas for Further Research

Taking into account the importance of stock exchange on the economic development and investment opportunities, the study recommends the same analysis of comparative analysis on listed stocks in DSE, be conducted in other listed companies, which are Kenya Commercial Bank,National Twiga Cement, Tanga Cement, Kenya Airways, Jubilee Insurance and East African Breweries. The purpose is to draw parallelism and come up with new lessons and recommendation for the exchange to develop.

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APPENDICES

Appendix 1.Questionaire for Shareholders of NMB and CRDB Bank

Qn 1.Do you think the Bank shares are traded at a reasonable price? /how do you find the price of shares of NMB and CRDB Bank?

a) Too high
b) Moderate
c) Low

Qn 2. Is the dividend paid on regular basis and is the amount paid reasonable to attract more investors?

a) Yes
b) No
c) Sometimes

Qn 3.How is the bank performing in terms of profitability compared with other banks

a) Better
b) The same
c) Worse

Qn 4. How risk are the bank shares compared with the shares of other banks?

a) More risk
b) Not risk

Qn 5.Do you think the bank is more efficient interms of its management team, and utilization of its assets?

a) Yes
b) No

Qn 6. How liquid is the bank?

a) Very liquid
b) Liquid
c) Not liquid

Qn 7 Has the bank managed to capitalize the market better than the others

a) Yes
b) No

Qn 8. Do you think the bank has a satisfactory and competitive amount of stock compared to other banks?

a) Yes
b) No
c) I don’t know

Qn 9/ Do you think the market capitalization of the bank enables it to contribute more to the Domestic Market Capitalization?

a) Yes
b) No

Qn 10 Does the bank have the potential to grow, so as to attract more investors in the future?

a) Yes
b) No
c) I don’t know

Appendix 2 Interview Questions for Brokers/agents and Bank Executives

Qn1. How does Dar –es-Salaam Stock Exchange performing at the moment?

a) Growing
b) Stagnate

Qn 2. From the above question, what do you think should be done to enhance the situation?

Qn 3. What are the market issues/problems faced by DSE globally?

Qn 4. How competitive is the DSE compared to other stock exchange in East Africa?

a) Highly competitive
b) Not competitive
c) Competitive

Qn 5. What are the reasons for the above answer?

Qn . 6. What are the problems facing Stock Markets/Financial Markets in the world?

Qn 7. Does DSE face the same to the answer above?