

Corporate CAPEX and market capitalization of firms on Malawi stock exchange: an empirical study

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Purpose

Market capitalization of firms reflects the current value of a firm and provides a reasonable basis on mergers and acquisition bargains. Determinants of a firm's increasing or decreasing market capitalization are multi-faceted, hence the study. The paper is about a historical study of the responsiveness of common share prices of some listed industrial companies to the firms' investments in capital expenditure. This study aims to discuss the impact of capital expenditure on a firm's market capitalization, with a focus on companies listed on the Malawi stock exchange (MSE).

Design/methodology/approach

The study reviews data collected from published annual reports for the years from 2007 to 2015. The variations in capital expenditure (CAPEX) which are termed "increase" or "decrease" were studied to establish their association with variations in stock prices before the increase or decrease, and after the increase or decrease. As stock price changes are caused by other determinants, the variables of return on capital employed (ROCE), net profit margin (NPM), asset turnover (ATO) and earnings retention ratio (ERT) were analyzed, and a respective correlation test was done against CAPEX movement over the years through panel data analysis and regression analysis to establish the correlation between the variables using XLSTAT.

Findings

At 95 per cent confidence level, CAPEX correlates with ROCE and NPM at 0.373 and 0.249 coefficients, respectively, and negatively with ERT at $6.45e-2$. With tests favoring a positive relationship between elements of profitability and stock price, the study finds that there is a positive relationship between a firm's CAPEXs and its future stock prices.

Research limitations/implications

The firm's commitment to CAPEX has a positive impact on its stock price

data are derived from a small and young stock market which may be lacking in its efficiency compared to the old and big ones the world over.

Originality/value

The study was undertaken based on the study of listed companies on the Malawi Stock Exchange, and the results may or may not reflect the reality on the ground in other stock exchanges.

Keywords: [Capex](#), [Market capitalization](#), [Share price](#), [Wealth maximization](#)

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