

The Impact of Free Cash Flow on Firm's Profitability: Empirical Evidence from Pakistan Stock Exchange

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Abstract

The Corporate firms tend to enhance its efficiency, performance and Profitability. Free Cash Flow affects not just the company's returns and productivity as well as the stability of the company's financial statement. The free cash flow effect on firm performance has been highlighted in the literature. This Descriptive study intends to identify and measures the impact of free cash flow on firm's profitability in Pakistan Stock Exchange. The population includes Pakistan's 84 companies of different 5 Non-Financial Sectors. Out of these sectors, 58 Non-financial companies were taken for the study. The Secondary data has been extracted from audited Financial Statements of these companies. With the EVIEWS analysis software Version 11, data were analysed using descriptive analysis, correlation analysis, and panel regression analysis, Hausman Test. The Panel Data regression model has been employed to identify the relationship between "Free Cash Flow" and Profitability. The Descriptive result has shown the mean of ROA is 6.2% and ROE is Negative at 7.4 %. Panel Regression shows that the model is a 75% variance on profitability (ROA). While in ROE the 23% variance on profitability. In ROA Model the FCF is Beta = 0.000000425 and Prob = 0.2458 it indicates no correlation and an Insignificant effect on probability. While in ROE Model the FCF is 0.000000453 and Prob = 0.9808 which is higher than Research probability 0.05. It indicates there is no correlation but has a highly insignificant effect on profitability

Keywords: Free Cash Flow, Profitability, Non-Financial Sectors, Pakistan Stock Exchange