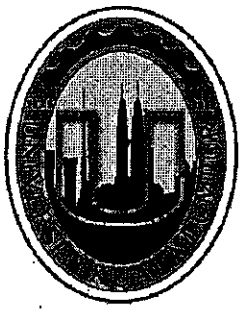

UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION

JANUARY 2016 SEMESTER

SUBJECT CODE	:	EIB 30403
SUBJECT TITLE	:	ADVANCED MANAGERIAL FINANCE
LEVEL	:	BACHELOR
TIME / DURATION	:	9.00 AM - 12.00 P.M / 3 HOURS
DATE	:	20th MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on one sides of the paper.
3. This question paper consists of TWO (2) sections; Section A and section B.
4. Answer ALL questions.
5. Please write your answers on the answer booklet provided.

THERE ARE FIVE (5) PAGES OF QUESTIONS, TWO (2) PAGES OF TABLE, AND ONE (1) PAGE OF FORMULAS EXCLUDING THIS PAGE.

SECTION A (Total: 40 marks)

INSTRUCTION: Answer ALL questions.

QUESTION 1

Lenovo is one of the world's leading personal technology companies, producing innovative PCs and mobile internet devices. A global Fortune 500 company, Lenovo is the world's largest PC vendor and fourth largest smartphone company.

While the Lenovo brand came into existence only in 2004, the company has a much longer history. In 1984, Legend Holdings was formed in a guard house in China. The company was incorporated in Hong Kong in 1988 and would grow to be the largest PC company in China. Legend Holdings changed its name to Lenovo in 2004 and, in 2005, acquired the former Personal Computer Division of IBM, the company that invented the PC industry in 1981.

Today, Lenovo is a personal technology company with more than 54,000 employees (including joint ventures) in more than 60 countries serving customers in more than 160 countries. Lenovo has headquarters in Beijing, China and major research and manufacturing centers in countries around the world.

Lenovo has grown faster than the market for more than four years while producing whether a PC, smartphone, tablet, smart TV, server, workstation or storage, Lenovo makes the products that customers need for what we call the "PC+ world." Lenovo owns the greatest track record for innovation in the PC industry, consistently winning awards and receiving rave reviews.

Lenovo remains committed to innovation and will continue to leverage our history of technological breakthroughs into new product categories that drive future growth. Innovation is how Lenovo achieves competitive differentiation and drives new market opportunities, such as mobile Internet, digital home and cloud computing.

Therefore, to produce latest technology product Lenovo need diversifying into a new product line which costs RM4,000,000. To finance this project, the company plans to issue new bonds to finance 25% of this cost and the remaining will be covered by ordinary shares.

The company's present debt and equity as at 31 December 2015 are as follows:

	RM
8% Bonds at par	6,000,000
Ordinary shares at par	8,000,000
Share premium	400,000
Retained earnings	1,600,000

The company information on the bond and ordinary shares are as follows:

	Par Value (RM)	Dividend Payout (%)	Market Price (RM)
Ordinary shares	1	40	11

The bonds (par value RM1000 with 10 years' maturity) will be issued at RM 950. Floatation costs on issuance of these bonds are nil. The company has just paid a dividend of RM0.40 per share to ordinary shareholders. The dividend is assumed to grow at a constant rate of 8% and the floatation cost on the issuance of ordinary shares is 10% of market price. The corporate tax rate is 26%.

Sami is a recent MBA graduate has been hired by the company's to finance Department. Sami had been asked by the Chief Finance Officer of the company to prepare a report that answers the following questions. Help and advice Sami's on the report.

Required:

i. Determine the number of bonds and new ordinary shares to be issued to finance the projects.

(6 marks)

ii. Calculate:

1. The after-tax cost of bonds
2. The cost of equity

(10 marks)

iii. Determine the weighted average cost of capital if the company plans to undertake the projects.

(4 marks)

[Total: 20 marks]

QUESTION 2

Precision Instruments is considering two mutually exclusive Projects X and Y: Following details are made available to you:

	Year	X	Y
Initial capital outlay ('000)		RM700	RM700
After tax annual cash inflows ('000)	1	100	300
	2	200	200
	3	300	200
	4	450	100
	5	600	100

The firm's cost of capital is 10% required for each projects:

Required:

i. Calculate Net present value of cash flows. **(6 marks)**

ii. Calculate Internal rate of return **(8 marks)**

iii. Profitability index **(2 marks)**

iv. Explain is it possible to choose both projects. If not, which project should be chosen? Reason your answer **(4 marks)**

[Total: 20 marks]

SECTION B (Total: 60 marks)

INSTRUCTION: Answer ALL questions.

QUESTION 1

A. The current dividend on a stock is RM2 per share and investors required a rate of return of 12%.

Required:

i. Calculate the stock price if the dividends grow at rate of 6% annually.

(4 marks)

ii. Calculate the stock price if the dividends are expected to grow at rate of 20% per year over the next three years and then at a rate of 5% per onwards.

(8 marks)

A. Ariff is considering the possibility of opening his own shop. He expects first-year sales to be RM600,000, and he feels that his variable costs will be approximately 50% of sales. His fixed costs in the first year will be RM250,000. Ariff plans to use 60% equity financing and 40% debt at 14% interest rate.

Required:

i. Compute Ariff's break-even point in RM. **(2 marks)**

ii. Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage. **(6 marks)**

[Total: 20 marks]

QUESTION 2

A. Discuss in details the term of *Riba* and explain how it relate to Islamic finance. **(5 marks)**

B. Explain why Islamic banks charge their customer (borrowers) more than conventional banks (interest rate) **(3 marks)**

C. Describe the differences between *Mudarabah* and *Musharakah* instruments in terms of:

i. Capital

ii. Management

iii. Profit and Loss Sharing

(6 marks)

D. Briefly explain two (2) of the challenges that facing Islamic finance. **(6 marks)**

[Total: 20 marks]

QUESTION 3

A. Genting Sdn Bhd, a company in the holiday travel industry, is presently in discussion with Sara Sdn Bhd about a possible merger. The current information on each company is given below:

	Genting	Sara
Earnings per share (EPS)	RM1.70	RM0.25
Price earnings ratio (P/E)	10 times	30 times

No. of shares outstanding	42 millions	12 millions

Neither company has debt. The management of Genting have estimated that the combined firms should generate synergistic gains with a present value of RM36 million.

Required:

i. Compute the maximum price Genting should pay for the acquisition. **(3 marks)**

ii. If Genting paid 100 million cash, determine the Net Present Value of the acquiring Sara. **(3 marks)**

iii. If a share swap occurs and 1 shares of Genting is exchanged for 2 shares of Sara, determine the Net Present Value of the merger to Genting. **(4 marks)**

B. GPO Sdn Bhd an exporter of palm oil. They assigned a contract to sell $20 million on March 2017 to Makkah Co. (Saudi Arabia). The current spot exchange rate is RM4.2/$. Suppose GPO uses put option with strike of RM4.1/$, Will you advise GPO to exercise the put option if the exchange rate RM4.2/$ on the exercise date? Reason your answer. **(5 marks)**

C. Suppose that you bought one call option contract for RM200. The strike price is RM50. If the stock price is RM60 just before the option expires, should you exercise the option? If you exercise the option, what is the percentage return on your investment? If you don't exercise the option, what is the percentage return on your investment? **(5 marks)**

[Total: 20 marks]

END OF QUESTION PAPER

Table A-1: Present Value of RM1 Due at the End of n Periods

Period	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%
1	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8065	.7813
2	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.7972	.7695	.7561	.7432	.7182	.6944	.6504	.6104
3	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6086	.5787	.5245	.4768
4	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6355	.5921	.5718	.5523	.5158	.4823	.4230	.3725
5	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5674	.5194	.4972	4761	.4371	.4019	.3411	.2910
6	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5066	.4556	.4323	.4104	.3704	.3349	.2751	.2274
7	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4523	.3996	.3759	.3538	.3139	.2791	.2218	.1776
8	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4039	.3506	.3269	.3050	.2660	.2326	.1789	.1388
9	.7026	.6446	.5919	.5439	.5002	4604	.4241	.3606	.3075	.2843	.2630	.2255	.1938	.1443	.1084
10	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.1911	.1615	.1164	.0847
11	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.2875	.2366	.2149	.1954	.1619	.1346	.0938	.0662
12	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2567	.2076	.1869	.1685	.1372	.1122	.0757	.0517
13	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2292	.1821	.1625	.1452	.1163	.0935	.0610	.0404
14	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2046	.1597	.1413	.1252	.0985	.0779	.0492	.0316
15	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0835	.0649	.0397	.0247
16	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0708	.0541	.0320	.0193
17	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0600	.0451	.0258	.0150
18	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0508	.0376	.0208	.0118
19	.4746	.3957	.3305	2765	.2317	.1945	.1635	.1161	.0829	.0703	.0596	.0431	.0313	.0168	.0092
20	.4564	.3769	.3118	2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0365	.0261	.0135	.0072
21	.4388	.3589	.2942	.2415	.1987	.1637	.1351	.0926	.0638	.0531	.0443	.0309	.0217	.0109	.0056
22	.4220	.3418	.2775	.2257	.1839	.1502	.1228	.0826	.0560	.0462	.0382	.0262	.0181	.0088	.0044
23	.4057	.3256	.2618	.2109	.1703	.1378	.1117	.0738	.0491	.0402	.0329	.0222	.0151	.0071	.0034
24	.3901	.3101	.2470	.1971	.1577	.1264	.1015	.0659	.0431	.0349	.0284	.0188	.0126	.0057	.0027
25	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0588	.0378	.0304	.0245	.0160	.0105	.0046	.0021

Table A-2: Present Value of an Annuity of RM1 per period for n Periods

Period	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%
1	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8696	0.8621	0.8475	0.8333	0.8065	0.7813
2	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6901	1.6467	1.6257	1.6052	1.5656	1.5278	1.4568	1.3916
3	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4018	2.3216	2.2832	2.2459	2.1743	2.1065	1.9613	1.8684
4	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.0373	2.9137	2.8550	2.7982	2.6901	2.5887	2.4043	2.2410
5	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6048	3.4331	3.3522	3.2743	3.1272	2.9906	2.7454	2.5320
6	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.1114	3.8887	3.7845	3.6847	3.4976	3.3255	3.0205	2.7594
7	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.5638	4.2883	4.1604	4.0386	3.8115	3.6046	3.2423	2.9370
8	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	4.9676	4.6389	4.4873	4.3436	4.0776	3.8372	3.4212	3.0758
9	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.3282	4.9464	4.7716	4.6065	4.3030	4.0310	3.5655	3.1842
10	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.6502	5.2161	5.0188	4.8332	4.4941	4.1925	3.6819	3.2689
11	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	5.9377	5.4527	5.2337	5.0286	4.6560	4.3271	3.7757	3.3351
12	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.1944	5.6603	5.4206	5.1971	4.7932	4.4392	3.8514	3.3868
13	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.4235	5.8424	5.5831	5.3423	4.9095	4.5327	3.9124	3.4272
14	10.563	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	6.0021	5.7245	5.4675	5.0081	4.6106	3.9616	3.4587
15	11.1184	10.38	9.7122	9.1079	8.5595	8.0607	7.6061	6.8109	6.1422	5.8474	5.5755	5.0916	4.6755	4.0013	3.4834
16	11.652	10.838	10.106	9.4466	8.8514	8.3126	7.8237	6.9740	6.2651	5.9542	5.6685	5.1624	4.7296	4.0333	3.5026
17	12.166	11.274	10.477	9.7632	9.1216	8.5436	8.0216	7.1196	6.3729	6.0472	5.7487	5.2223	4.7746	4.0591	3.5177
18	12.659	11.69	10.828	10.059	9.3719	8.7556	8.2014	7.2497	6.4674	6.1280	5.8178	5.2732	4.8122	4.0799	3.5294
19	13.134	12.085	11.158	10.336	9.6036	8.9501	8.3649	7.3658	6.5504	6.1982	5.8775	5.3162	4.8435	4.0967	3.5386
20	13.59	12.462	11.47	10.5940	9.8181	9.1285	8.5136	7.4694	6.6231	6.2593	5.9288	5.3527	4.8696	4.1103	3.5458
21	14.029	12.821	11.764	10.836	10.017	9.2922	8.6487	7.5620	6.6870	6.3125	5.9731	5.3837	4.8913	4.1212	3.5514
22	14.451	13.1630	12.042	11.061	10.201	9.4424	8.7715	7.6446	6.7429	6.3587	6.0113	5.4099	4.9094	4.1300	3.5558
23	14.857	13.489	12.303	11.272	10.371	9.5802	8.8832	7.7184	6.7921	6.3988	6.0442	5.4321	4.9245	4.1371	3.5592
24	15.2470	13.799	12.55	11.469	10.529	9.7066	8.9847	7.7843	6.8351	6.4338	6.0726	5.4509	4.9371	4.1428	3.5619
25	15.622	14.094	12.783	11.654	10.675	9.8226	90770	7.8431	6.8729	6.3641	6.0971	5.4669	4.9476	4.1474	3.5640

FORMULA

- Depreciation = [Cost - Salvage Value] / n
- DPR = (Dividend / Net Income) x 100
- DPS = Dividend / Number of Shares Outstanding
- $E(R) = \sum (P \times R)$
- $\sigma = \sqrt{\sum P (R - E(R))^2}$
- $CV = \sigma / r$
- $COV_{XX,YY} = \sum (r_{XXi} - E(R)_{XX}) (r_{YYi} - E(R)_{YY}) (P_i)$
- $E(R)_p = w_{XX}E(R)_{XX} + w_{YY}E(R)_{YY}$
- $P_{XX,YY} = COV_{XX,YY} / (\sigma_{XX})(\sigma_{YY})$
- $D_1 = D_0 (1 + g)$
- $V_B = CP (PVIFA) + MV (PVIF)$
- WACC = Sum of ([w] x cost of capital)
- NPV = sum of PV - IO
- PBP = [(n-1)] + [(IO - sum of cash flow before n) / (cash flow of the year n)]
- $V^*B = \Delta V + VB$
- $V_{AB} = VA + (V^*B - \text{cost of acqn})$
- $V_{AB} = VA + VB + \Delta V$
- MP = Value of Co AB after merger
  Total no. of c/stocks (new + old)
- NPV = V*B – actual cost of acqn
- $K_d = A\% + [(a-b)/(a-c)] \times (C\% - A\%)$
- $K_{ps} = D / (MP - FC)$
- $K_{Re} = [D_1 / (MP)] + g$
- $K_{ncs} = [D_1 / (MP - FC)] + g$
- Vc/s = Dividend / k
- Vc/s = D/(k-g)
- $Vc/s = [D_1 /(1+K)^n] + \ldots\ldots + [D_n / \{ (k-g)(1+k) \}]$