



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION MARCH 2024 SEMESTER

COURSE CODE	: EIB30403
COURSE NAME	: ADVANCED MANAGERIAL FINANCE
PROGRAMME NAME	: BACHELOR IN ACCOUNTING (HONS)
DATE	: 9 JULY 2024
TIME	: 9.00 AM – 12.00 PM
DURATION	: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Please **CAREFULLY** read the instructions given in the question paper.
2. This question paper has information printed on both sides of the paper.
3. This question paper consists of **FOUR (4)** questions.
4. Answer **ALL** questions.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. This question paper must not be removed from the examination hall.

THERE ARE FIVE (5) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

A relatively young firm has capital components valued at book and market and market component costs as follows. No new securities have been issued since the firm was originally capitalized.

Component	Values Market	Market Book	Cost
Debt	RM42,830	RM40,000	8.5%
Preferred Stock	RM10,650	RM10,000	10.6%
Common Equity	RM65,740	RM32,000	25.3%

- (a) Calculate the firm's capital structures (weight) and WACCs based on both book and market values and compare the two. (5 marks)
- (b) What appears to have happened to interest rates since the company was started? (5 marks)
- (c) Does the firm seem to be successful? Why? (5 marks)
- (d) What would be the implication of using a WACC based on book as opposed to market values in investment appraisal? In other words, what kinds of mistakes might management make by using the book values WACC? (5 marks)
- (e) Briefly explain the three theories as they relate to dividend policy. (5 marks)

[TOTAL: 25 MARKS]

Question 2

Oracle Berhad, a dynamic business in microchips makes a bid of 17 shares for every 20 shares of Wizard Berhad, which manufactures electronic hardware. The income statements of the two firms are as follows:

Income Statement for the year ended 31st August 2006

	Oracle(RM'000)	Wizard (RM'000)
Turnover	3,000	2,000
Operating Income	300	140
Interest	100	10
Pre-tax Income	200	130
Post-tax Income	100	65
Dividends Paid	20	30
Retained Earnings	80	35

Other information:

	Oracle	Wizard
• Number of shares issued	1.0 million	0.5 million
• Earnings per share	RM0.10	RM0.13
• P/E Ratio	20	10
• Market Price per share	RM2.00	RM1.30
• Dividend per Share	RM0.02	RM0.06
• The merger is expected to result in an annual post-tax savings of RM15,000		

A concerned shareholder of Wizard Berhad believes that the bid is undervalued and asks for your advice. You are required to determine:

- The bid consideration (5 marks)
- The earnings per share of the combined group. (10 marks)
- The theoretical post-acquisition price of Oracle shares assuming the price/earnings ratio remains. (5 marks)
- What are the main features of Leverage Buy Out (LBO)? (5 marks)

[TOTAL: 25 MARKS]

Question 3

Contra Bhd. is a Malaysian company that has business dealings with several foreign companies. Recently, it exported its products to Australian customers and is expected to receive A\$300,000 in six months' time. The financial manager has decided to hedge against the currency risk of the account receivables. The following exchange rates and interest rates are available:

Exchange rates quoted by a Malaysian bank:		RM/A\$
Spot		3.1645 – 3.1648
6 months forward		3.1682 – 3.1686
Interest rates (per annum):		
Malaysia	: 5% - 10%	
Australia	: 6% - 9%	

Assume that it is now June. The company has a cost of short-term finance of 7% per annum.

Required:

- Calculate the expected Malaysian Ringgit (RM) receipts in six months using the forward market hedging. (6 marks)
- Calculate the expected Malaysian Ringgit (RM) receipts in six months using the money market hedging. (6 marks)
- Recommend, with justification, which hedging technique in parts (a) and (b) above should Contra undertake. (3 marks)
- Explain **THREE (3)** explanations for relative exchange rates. (7 marks)
- Explain how inflation rates can be used to forecast exchange rates. (3 marks)

[TOTAL: 25 MARKS]

Question 4

XYZ Bhd. (EFG), a company listed on Bursa Malaysia, is proposing to invest in a new project that will produce a net present value of RM12 million. XYZ has forecasted that it would need RM30 million to fund the new project. XYZ is considering the following financing options to raise funds for the new project. XYZ Bhd. (EFG) is planning to offer a rights issue to its current shareholders in order to raise RM30 million. The offer is priced at a discount of 20% to its current market price of RM2.50 per share. There are currently 45 million shares in issue. Zack Tan is a shareholder, holding 18,000 shares in XYZ. He is unsure whether he should subscribe to the rights issue. He has approached a financial advisor, who advised him that he has the following choices:

- Fully subscribe for the new shares.
- Sell all the rights.
- Sell some rights just enough to subscribe to the remaining shares.
- Do nothing.

Required:

- (a) Estimate the number of new shares to be issued by XYZ under the rights issue in order to raise the RM30 million, the terms of the rights issue, and the theoretical ex-rights price per share. (8 marks)
- (b) Estimate the effect of each of the choices above on Mr. Zack Tan's wealth before and after the rights issue. (10 marks)
- (c) Discuss the advantages and disadvantages of a rights issue in raising additional funds. (7 marks)

[Total: 25 marks]

END OF QUESTION PAPER