# UNIVERSITI KUALA LUMPUR
## BUSINESS SCHOOL

## FINAL EXAMINATION
### OCTOBER 2024 SEMESTER

| | |
|---|---|
| **COURSE CODE** | **: EIB30403** |
| **COURSE NAME** | **: ADVANCED MANAGERIAL FINANCE** |
| **PROGRAMME NAME** | **: BACHELOR IN ACCOUNTING (HONS)** |
| **DATE** | **: 13 FEBRUARY 2025** |
| **TIME** | **: 2.00 PM – 5.00 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 **FIVE (5) 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.**
8. You are allowed to use financial calculator.

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

**INSTRUCTION: Answer ALL questions.**
**Please use answer booklet provided.**

**Question 1**

a) Hubline Berhad is expected to pay a RM0.50 per share dividend at the end of year 2024 (i.e., $D_1$ = RM0.50). The dividend is expected to grow at a constant rate of 7 percent a year. The required rate of return on the stock, $k_e$, is 15 percent. Calculate the intrinsic value of Hubline share using Constant Dividend Growth Model.

(4 marks)

b) Carimin's most recent annual dividend was RM1.80 per share and the firm's required rate of return is 11%. Find the intrinsic value of the company's share when:

i. dividends are expected to grow at 8 percent annually for 3 years followed by 5 percent constant annual growth rate from year 4 to infinity.

(8 marks)

ii. dividends are expected to grow at 8 percent annually for 3 years followed by 0 percent growth in year 4 to infinity.

(4 marks)

iii. dividends are expected to grow at 8 percent annually for 3 years followed by 10 percent constant annual growth rate from year 4 to infinity.

(4 marks)

**[Total: 20 marks]**

**Question 2**

a) Some financial data for each of the three companies are shown below:

| | McClooney Auto Parts | Rempit Accessories | Big Brother Motor Parts |
|---|---|---|---|
| Average selling price per unit | RM15.00 | RM400.00 | RM40.00 |
| Average variable cost per unit | RM12.35 | RM220.00 | RM14.50 |
| Units sold | 75,000 | 4,000 | 13,000 |
| Fixed costs | RM35,000.00 | RM100,000.00 | RM70,000.00 |

i. What is the profit for each company at the indicated sales volume? (3 marks)

ii. Calculate the degree of operating leverage (DOL) for each company at indicated sales volume. (3 marks)

iii. If sales were to decline, which company will suffer the largest relative decline in profitability? (2 marks)

b) You own 20 percent of Tea-Corp shares, which recently sold for RM8.60 before a planned 1 for 4 bonus issues announcements. Before the bonus issue, there are 800,000 paid-up shares.

i. What is your financial position before the issue, and what will it be after the issue? (Assume the share price falls proportionately).

(4 marks)

c) Suppose you own 5 percent of SEACORP ordinary shares, which most recently sold for RM98 prior to a planned two-for-one share split announcement. Before the split, there are 50,000 ordinary shares. Relative to now, what will be your financial position after the share split?

(4 marks)

d) A THHE Bond which is maturing on 31 December 2026 has a redemption value of RM1,000 and pays coupon interest RM150 every December up to and including year 2026. This means bondholder will receive RM1,150 on 31 December 2026. If market interest rate is assumed to be 10% throughout the period, compute the bond's intrinsic value (i.e., present value) on January 1, 2024.

(4 marks)

**[Total: 20 marks]**

**Question 3**

a) ACM Sdn Bhd has released the following financial information:

| | |
|---|---|
| Earnings available for common shareholders | RM1,000,000 |
| Number of common shares outstanding | 400,000 units |
| Earnings Per Share (EPS) | RM2.50 |
| Market Price Per Share (MP) | RM50.00 |
| Price Earnings Ratio (P/E) | 20.00 times |

ACM is planning to use RM800,000 of its earnings for stock repurchase. If ACM pays RM52.00 per share for this repurchase exercise, compute the company's new EPS.

(6 marks)

b) Consider the purchase of TNB JUN50 call options at RM5 premium. (You bought CALL, so you have the right to buy!)

i) Calculate your profit/loss if TNB spot market price is RM30. (3 marks)

ii) Calculate your profit/loss if TNB spot market is RM60. (3 marks)

iii) Calculate your breakeven price. (3 marks)

iv) Calculate your maximum loss. (3 marks)

v) Calculate your maximum gain. (2 marks)

**[Total: 20 marks]**

**Question 4**

You are given the following financial information on Kuala Lumpur Composite Index (KLCI) and Felda Global Ventures (FGV).

| Year | KLCI Annual Return (%) | FGV Annual Return (%) |
|---|---|---|
| 2020 | 23.80 | 38.60 |
| 2021 | -7.20 | -24.70 |
| 2023 | 6.60 | 12.30 |
| 2023 | 20.50 | 8.20 |
| 2024 | 30.60 | 40.10 |

a) Compute the mean return of KLCI and FGV stock.

(4 marks)

b) Calculate the standard deviation and coefficient of variation (CV) for both KLCI and FGV.

(8 marks)

c) Calculate the Beta of FGV and provide comments on its Beta.

(4 marks)

d) Discuss the implications of having high operating leverage in FGV company

(4 marks)

**[Total: 20 marks]**

**Question 5**

a) Explain **TWO (2)** main reasons why share price of a target firm would go sky-rocket the moment company acquisition is announced.

(4 marks)

b) Elaborate in detail **TWO (2)** common strategies in acquiring a firm

(6 marks)

c) Explain the following four Capital Structure theories in detail.

a) Modigliani-Miller Theory
b) Trade-off Theory
c) Pecking Order Theory
d) Market Timing Theory

(8 marks)

Which one of the following four theories best describes WCE Holding Berhad's current financial model?

(2 marks)

**[Total: 20 marks]**

**END OF EXAMINATION PAPER**