UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
JULY 2025 SEMESTER

COURSE CODE	:	EBB30703
COURSE NAME	:	CORPORATE FINANCE
PROGRAMME NAME	:	BACHELOR IN ISLAMIC FINANCE (HONS)
DATE	:	17 SEPTEMBER 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; answer **ALL** questions.
4. Please write your answers on the answer booklet provided.
5. All questions must be answered in **English** (any other language is not allowed).
6. **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 answer booklet provided.

Question 1

a. Rizqy is considering investing in equity market. She is quite interested in putting some of her fortune in Felder Bhd's share. She managed to gather some vital information about Felder Bhd. Her research revealed that Felder Bhd. paid its shareholders an annual dividend of RM4.50 per share for the latest financial year. She learnt from her friend who is a research analyst that the annual dividends of Felder Bhd are forecasted to grow at the rate of 8% per year for each of the next two years. Then, the growth rate is expected to level down at 6% a year thereafter. The required rate of return is 12%

Required:

i. Calculate the maximum price that she would pay for the stock.

(4 marks)

ii. If the market price of Felder is RM80.00, would Rizqy proceed buying Felder? Why?

(2 marks)

b. Adnan is considering buying corporate bonds. The following are the relevant data for him to evaluate:

	Kemasek Bonds	**L.Kuning Bonds**
Coupon rate	12% per annum	12% per annum
Maturity date	10 years	8 years
Market interest rate	16% per annum	8% per annum
	Annually compounded	Semiannually compounded
Par value	RM1,000	RM1,000
Market price	RM936	RM1,190

Required:

i. Calculate the value of Kemasek Bonds.

(4 marks)

ii. Calculate the value of L.Kuning Bonds

(4 marks)

iii. If the market price of each bond is as stated above, which bond should he buy?
(2 marks)

c. Based on the capital structure below, calculate the weighted average cost of capital for this company.

Capital Structure	Amount (RM,000)
Bonds	RM1,100
Preferred Stock	RM 250
Common Stock	RM3,700

(4 marks)
[Total: 20 marks]

Question 2

Diamond Berhad has sales of 100,000 units at RM2.00 per unit, variable operating costs of RM1.70 per unit, and fixed operating costs of RM6,000. Interest is RM10,000 per year.

Jade Berhad has sales of 100,000 units at RM2.50 per unit, variable operating costs of RM1.00 per unit, and fixed operating costs of RM62,500. Interest is RM17,500 per year.

Assume that both firms are in the 40% tax bracket.

a. Calculate the degree of operating, financial, and combined leverage for Diamond Berhad.
(6 marks)

b. Calculate the degree of operating, financial, and combined leverage for Jade Berhad.
(6 marks)

c. Compare the relative risks of the two firms.
(4 marks)

d. Illustrate the principles of leverage based on your answers in (a), (b) and (c).
(4 marks)
[Total: 20 marks]

Question 3

a. There are certain factors that lead to financial risk. Elaborate thoroughly the sources of financial risk.

(9 marks)

b. Amirul is considering buying 300 shares of KG Berhad at RM50 per share. Amirul heard the news that there the stock market will enter a slump and thus he expects the price of KG to decrease to RM45 per share. As an alternative Amirul is considering to purchase an option contract for 300 shares of KG at a striking price of RM52. The 90-day option will cost RM300. Ignore any brokerage fees or dividends.

i. Advise what kind of option should Amirul purchased?

(3 marks)

ii. What will amirul's profit be on the option transaction if the underlying price does decrease to RM45?

(4 marks)

iii. Identify the profit or loss if the market price increase to RM55.

(4 marks)

[Total: 20 marks]

Question 4

a. Kay Ng Electric is debating between a leveraged and an unleveraged capital structure. The all equity capital structure would consist of 40,000 shares of stock. The debt and equity option would consist of 25,000 shares of stock plus RM280,000 of debt with an interest rate of 7 percent. What is the break-even level of earnings before interest and taxes between these two options? Ignore taxes.

(5 marks)

b. ABC Foods has expected earnings before interest and taxes of RM48,600, an unlevered cost of capital of 13.2 percent, and debt with both a book and face value of RM25,000. The debt has an 8.5 percent coupon. The tax rate is 34 percent. Calculate the value of the firm.

(5 marks)

c. Briefly explain clientele effect and how does it affect the dividend policy?

(6 marks)

d. Discuss **TWO (2)** differences between stock dividend and stock split.

(4 marks)

[Total: 20 marks]

Question 5

a. Cost of capital and required rate of return are key fundamental metrics in finance. Briefly explain the difference between the two decision making tools.

(5 marks)

b. There are many measures that a firm can take to prevent or make it more difficult for a predator companies to acquire it. Briefly discuss **FOUR (4)** takeover defence tactics..

(10 marks)

c. Alpha is planning on merging with Beta. Alpha will pay Beta's shareholders the current value of their stock in shares of Alpha. Alpha currently has 4,200 shares of stock outstanding at a market price of RM40 a share. Beta has 2,500 shares outstanding at a price of RM18 a share. The after-merger earnings will be RM8,800. Calculate the earnings per share after the merger.

(5 marks)

[Total: 20 marks]

END OF EXAMINATION PAPER