



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION

JANUARY 2016 SEMESTER

**SUBJECT CODE** : EBB30703  
**SUBJECT TITLE** : CORPORATE FINANCE  
**LEVEL** : BACHELOR  
**TIME / DURATION** : 9:00AM – 12:00PM / 3 HOURS  
**DATE** : 28<sup>TH</sup> MAY 2016

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on **both** sides of the paper.
3. This question paper consists of **THREE (3)** sections: Section A, Section B and Section C.
4. Answer **ALL** questions in Section A and Section B and choose **ONLY ONE (1)** question in SECTION C.
5. Please write your answers on the OMR form and answer booklet provided.
6. You are allowed to use a financial calculator.
7. All questions must be answered in **English** (any other language is not allowed).
8. This question paper must not be removed from the examination hall.

THERE ARE NINE (9) PAGES OF QUESTIONS, EXCLUDING THIS PAGE

**SECTION A (Total: 20 marks)****INSTRUCTION: Answer ALL questions.****Please use the answer booklet provided.**

1. Haziq is currently investing his money in a bank account that has a nominal annual rate of 9.5%, compounded monthly. How many years will it take for him to quadruple his money?
  - A. 12.80 years
  - B. 13.55 years
  - C. 14.65 years
  - D. 15.80 years
  
2. Which of the following statements is most CORRECT?
  - A. Kuala Lumpur Composite Index (KLCI) is the performance measure for Malaysian Bond Market
  - B. Properties sector is excluded from Bursa Malaysia share transactions
  - C. It is true that Initial Public Offering is one of the common transactions in Malaysia money market
  - D. Bursa Malaysia is an example of Malaysia secondary market
  
3. Money markets are markets for \_\_\_\_\_.
  - A. Foreign currencies like USD, Euro etc.
  - B. Short-term securities such as Treasury Bills
  - C. Long-term financial instruments such as Government Bonds
  - D. Consumer loans such as home mortgages and hire-purchase
  
4. Which of the following statements is most CORRECT?
  - A. The present value of an annuity due will exceed the present value of an ordinary annuity (assuming all else equal).
  - B. The future value of an annuity due will exceed the future value of an ordinary annuity (assuming all else equal).
  - C. The nominal interest rate will always be greater than or equal to the effective annual interest rate.
  - D. Statements A and B are correct.

5. The decision to buy or sell bonds depends on \_\_\_\_\_.
- A. investor's expectation of future yield
  - B. investor's expectation on future bond coupon rate
  - C. the shareholders' expectation of future earnings.
  - D. none of the above
6. Assume that a 10-year Treasury bond has a 12 percent annual coupon, while a 15-year Treasury bond has an 8 percent annual coupon. The yield curve is flat; all Treasury securities have a 10 percent yield to maturity. Which of the following statements is most correct?
- A. The 10-year bond is selling at a discount, while the 15-year bond is selling at a premium.
  - B. The 10-year bond is selling at a premium, while the 15-year bond is selling at par.
  - C. If interest rates decline, the price of both bonds will increase, but the 15-year bond will have a larger percentage increase in price.
  - D. If the yield to maturity on both bonds remains at 10 percent over the next year, the price of the 10-year bond will increase, but the price of the 15-year bond will fall.
7. The risk-free interest rate in Malaysia is proxied by \_\_\_\_\_.
- A. 5-year Treasury Bonds
  - B. 3-month Treasury Bills (T-Bills)
  - C. 6-month Commercial Paper rate (CP)
  - D. Overnight lending rate
8. As we increase the frequency of bond's coupon payments (assuming other factors constant), we will notice its intrinsic value starts \_\_\_\_\_.
- A. Increasing
  - B. Fluctuating
  - C. Stabilizing
  - D. Declining

9. Which of the following statements is most CORRECT?
- A. A bond's par value is the amount that will be repaid by the bond issuer when the bond matures.
  - B. A bond's coupon interest varies with the current market interest rates in which borrowing firms promise to pay bondholders each year as stipulated in the bond contract.
  - C. A bond is a short-term financial security issued by both public and private sector.
  - D. All of the statements above are correct.
10. Investors in the share market are entitled to some kind of reward(s) from their equity investment. The potential reward(s) for them is (are):
- A. Income gain from dividends
  - B. Capital gain from an increase in share price
  - C. Both income and capital gains
  - D. None of the above
11. A residual-dividend theory asserts that \_\_\_\_\_
- A. Investors are indifferent between dividends and capital gains.
  - B. A dividend should be paid only when any internally generated funds remain after financing the profitable firm's investments.
  - C. A dividend is more predictable than capital gains
  - D. All the statements above are correct
12. Which of the following statements is most CORRECT?
- A. An optimal dividend policy is a policy that strikes a balance between current dividends and the firm's future growth in order to maximize the firm's share price
  - B. In practice, most firms try to follow a policy of paying a steadily increasing dividend.
  - C. On average, companies send a negative signal to the marketplace when they announce a decrease in their dividend.
  - D. All the above are correct.

13. The slope of security market line (SML) is represented by \_\_\_\_\_.
- A. Market Risk Premium (MRP).      C. Capital Market Line (CML)  
 B. Security Risk Premium (SRP).      D. The Efficient Frontier.
14. A decrease in a firm's willingness to pay dividends is likely to result from an increase in its \_\_\_\_\_
- A. Profitable investment opportunities  
 B. Access to capital markets.  
 C. Earnings growth.  
 D. Collection of accounts receivable.
15. Which of the following is NOT an example of a debt financing?
- A. Bond      C. Preferred stock  
 B. Notes payable      D. Bank loans
16. Bird-in-the-hand Theory is different from Expectation Theory in that it is based on the notion \_\_\_\_\_
- A. this theory is frequently used by both academics and analysts  
 B. dividend is more predictable than capital gain  
 C. Retained earnings are not source of project financing  
 D. none of the above is correct.
17. Which of the following statements is most CORRECT concerning leverage?
- A. Financial leverage is resulted from the use of debt financing.  
 B. The common shareholders are only exposed to operating risk.  
 C. As risk to common shareholders increases, their required return will decline.  
 D. All of the statements above are correct.
18. Which of the following statements is most CORRECT?
- A. Ordinary shares are also known as common stocks.  
 B. Stock repurchase normally leads to increase in share price.  
 C. Theoretically, both stock split and bonus share issue will not increase share price.  
 D. All of the above are correct.

19. Which of the following statements is NOT a source of internal financing?
- A. Prepayment on goods before delivery
  - B. Corporate loan from an international bank
  - C. Company's retained earnings
  - D. Delayed payables
20. Stocks that have been repurchased by company for Employee Stock Options are called \_\_\_\_\_.
- A. the company's intangible assets.
  - B. treasury stocks.
  - C. derivatives.
  - D. debentures.

LIBRARY'S COPY

LIBRARY'S COPY

LIBRARY'S COPY

LIBRARY'S COPY

LIBRARY'S COPY

**SECTION B (Total: 70 marks)**

**INSTRUCTION: Answer ALL questions.**  
**Please use the answer booklet provided.**  
**Show all your workings for partial credit.**

**Question 1**

Grik Lumberjack invests \$5 million to clear a tract of land in Bukit Gemok, Johor and to set out some young Nyatoh trees. The trees will mature in 12 years, at which time Grik Lumberjack plans to sell the forest at an expected price of \$9 million. What is Grik's expected rate of return from its timber investment?

[4 marks]

**Question 2**

Maxx Corporation's 2015 sales were \$12 million. Sales were \$6 million 5 years earlier (in 2010).

- a) To the nearest percentage point, at what rate have sales been growing?

[3 marks]

- b) Suppose someone calculated the sales growth for Megan Corporation in part (a) as follows: "Sales double in 5 years. This represents a growth of 100 percent in 5 years, so, dividing 100 percent by 5, we find the growth rate to be 20 percent per year. With your understanding in time value of money concept, explain what is wrong with this calculation."

[4 marks]

**Question 3**

Hubline Berhad is expected to pay a \$0.50 per share dividend at the end of year 2016 (i.e.,  $D_1 = \$0.50$ ). The dividend is expected to grow at a constant rate of 7 percent a year. The required rate of return on the stock,  $k_s$ , is 15 percent. What is the intrinsic value of Hubline share using Constant Dividend Growth Model?

[4 marks]

**Question 4**

Genting's most recent annual dividend was \$1.80 per share and the firm's required rate of return is 11%. Find the intrinsic value of the company's share when:

- a) 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]

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

[4 marks]

- c) 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]

**Question 5**

A MSFT Bond which is maturing on 31 December 2018 has a redemption value of \$1,000 and pays coupon interest \$150 every December up to and including year 2018. This means bondholder will receive \$1,150 on 31 December 2018.

- a) If market interest rate (i.e., yield) is assumed to be 10% throughout the period, compute the bond's intrinsic value (i.e., present value) on January 1, 2016.

[4 marks]

- b) If market interest rate (i.e., yield) is assumed to be 5% throughout the period, compute the bond's intrinsic value (i.e., present value) on January 1, 2016.

[4 marks]

- c) Assuming MSFT Bond pays its coupon interest quarterly, with market interest rate (i.e., yield) is assumed at 5% throughout the period, compute the bond's intrinsic value (i.e., present value) on January 1, 2016.

[4 marks]



**Question 6**

You own 20 percent of J-Corp shares, which recently sold for \$8.60 before a planned 1 for 2 bonus issue announcement. Before the bonus issue, there are 800,000 paid up shares.

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

[4 marks]

- b) Your stockbroker, PM Securities, believes that the market will react positively to the bonus issue and the price will fall only 20 percent after the issue. If the stockbroker's expectation is correct, what will be your net gain?

[4 marks]

**Question 7**

Suppose you own 5 percent of LIONCORP ordinary shares, which most recently sold for \$98 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?

[6 marks]

**Question 8**

Consider the purchase of TNB JUN50 call options at \$5 premium. (You bought CALL, so you have the right to buy!)

- a) What is your profit/loss if TNB spot market price is \$30? [3 marks]
- b) What is your profit/loss if TNB spot market is \$60? [3 marks]
- c) What is your breakeven point? [3 marks]
- d) What is your maximum loss? [2 marks]
- e) What is your maximum gain? [2 marks]

**SECTION C (Total: 10 marks)**

**INSTRUCTION:** Select only ONE out of two questions.

Please use the answer booklet provided.

**Question 1**

There are many ways to acquire a company. Discuss two of the common approaches.

[10 marks]

**Question 2**

Explain the following three Capital Structure theories in detail.

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

Which one of the following four theories best describe AIRASIA's current financial model.

[10 marks]

**END OF QUESTION**