



**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER I  
SESSION 2013/2014**

COURSE NAME : BUSINESS VALUATION  
COURSE CODE : BPE 44903  
PROGRAMME : 4 BPD  
EXAMINATION DATE : DECEMBER 2013 / JANUARY 2014  
DURATION : 3 HOURS  
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF SIX (6) PAGES

**Q1** It has been noted that growth is important for any business. Therefore, firm will normally embark on various strategies in order to expand its revenue base and to ensure that growth will never stall. Following is an excerpt of analyst report on a recent event regarding possible assets acquisition

### **CMMT Aborts Tropicana Deal**

**KUALA LUMPUR:** CapitaMalls Malaysia Trust (CMMT) has aborted its proposed acquisition of Tropicana Corp. Bhd's assets – Tropicana City Mall and Tropicana City Office Tower.

In a filing with Bursa Malaysia yesterday, CapitaMalls REIT Management Sdn. Bhd, manager of CMMT, said “both parties are unable to mutually agree on the terms of the sale and purchase agreement and have mutually agreed not to pursue the proposed disposal.

Tropicana had on Aug 23 sent a letter of intent (LoI) to CMMT offering it the opportunity to explore the acquisition of the four-storey shopping mall, along with its three basement levels and part of its lower ground comprising 1,759 parking bays, and the 12-storey office building, both located in Petaling Jaya. Tropicana granted CMMT an exclusive period of four weeks from the date of the LoI to undertake due diligence on the proposed disposal.

A banker said the deal could have fallen through because of a mismatch in pricing expectation of both parties. “At the reported price tag of RM550 million to RM650 million, Tropicana could not meet the yield requirement of CMMT. But this does not mean that the parties have reservation on the quality of the assets,” she said.

JP Morgan in its August report pointed out that a price tag of RM1,146 to RM1,375 per sq ft translated into net rental yield of no more 5%. Hence, the pricing appear slightly on the steep side. “Recent revaluation of retail malls belonging to M-REITs [Malaysian Real Estate Investment Trusts] showed property rental yields ranged from 5.7% to 6.8%,” it said. CMMT average yield for its asset portfolio stood at 6.7% for 2012 and 2011, according to its annual report. Nonetheless, JP Morgan said the acquisition could be good in the longer term, citing the prime location of the asset and CMMT's tracks record of turning around malls, such as The Mines in Kuala Lumpur and Gurney Plaza in Penang.

“The mall [Tropicana City Mall] has a prime location in the Klang Valley with the surrounding affluent neighborhood serving a good catchment area,” it said.

According to Tropicana's latest annual report, the shopping mall, completed in 2008, has 436,447 sq ft of net lettable area (NLA) and value of RM441.44 million as at September 2012. The office tower, completed in 2010, has 101,246 sq ft of NLA and a value of RM61.68 million. The total value of the two buildings in Tropicana's book amounted to RM501.12 million. The value per sq ft is RM1,011 for the mall and RM609 for the office tower. Tropicana has been aggressively monetising its assets through land sales and the disposal of investment assets as part of its de-gearing exercise. According to an RHB Research briefing note date Aug 30, 2013, Tropicana completed total land sale of RM149 million in the first half of 2013 and aim to complete another RM197 million worth of land sales in the second half. Future land sales could amount to RM403 million.

The report also said Tropicana had plans to dispose of some RM883 million worth of investment properties, including Tropicana City Mall, Tropicana City Office Tower and Dijaya Plaza. RHB Research has forecast the Tropicana's net debt to equity ratio would fall from 75% in December 2012 to 55.9% in December 2013. In another report, the research house said it was positive on the potential acquisition by CMMT of Tropicana City Mall and the office tower, said it could boost earning for the REIT. However, it expect CMMT to consider acquiring only the mall, given its focus on retail asset. CMMT's sister REIT, Quill Capita Trust which also part of CapitaLand Group, focuses on commercial assets.

“Assuming a valuation of RM1,400 to RM1,500 per sq ft, the mall could worth RM600 to RM700 million, which could translate into total incremental revenue of about RM31 million to RM42 million, assuming yield of about 5% to 6%,” said RHB Research. “This could potentially mitigate the stagnating income from Sungei Wang Plaza”, it said.

CMMT's shopping mall portfolio comprises Gurney Plaza, Sungei Wang Plaza in Kuala Lumpur. The Mines and East Coast Mall in Kuantan. Sungei Wang Plaza is currently undergoing refurbishment works which are expected to be completed this year.

(Source: The Edge Financialdaily, October 30<sup>th</sup>, 2013.)

- (a) Based on the ability of the firm to generate profit in the long run and to continue its strategy to create growth, discuss the decision made by CMMT for not to continue with the acquisition of the assets.

(10 marks)

- (b) Some analyst argued that the acquisition of both assets could be good for CMMT in the longer term while other pointed that the firm should focus on acquiring retail complex. Based on the given statement, suggest strategy that should be taken by CMMT in order to broaden its revenue base.

(15 marks)

**Q2** Derby Bhd is planning to acquire the entire shares of Hathaway Development Bhd. The following Table Q2 is the information related to Hathaway Development Bhd.

**Table Q2:** Selected Financial Information of Hathaway Development Bhd.

Year	Dividend payment RM/share	Assets (Book Value) (RM) as at 31 July 2012	Total Liabilities (RM) as at 31 July 2012
2012	3.50 (paid)	Current:	Current:
2013	3.85 (forecast)	RM 3,847,044,000	RM 667,658,000
2014	4.24 (forecast)	Non-current:	Non-current:
2015	4.66 (forecast)	RM 1,495,860,000	RM 1,030,669,000
2016	4.89 (forecast)		

Other information:

- Ordinary share at RM0.50 each, issued and fully paid: RM 745,148,000.
- Beta for Hathaway Development Bhd. is estimated at 1.26. The interest rate for long term Treasury bond is at 6 per cent while the average rate of risk premium is at around 5 per cent.

- (a) Calculate the value of Hathaway Development Bhd. as at 2012 using the dividend-growth model valuation which stated as;

$$P_0 = \sum_{t=1}^N \frac{D_0 \times (1 + g_1)^t}{(1 + r_s)^t} + \left[ \frac{1}{(1 + r_s)^N} \times \frac{D_{N+1}}{r_s - g_2} \right]$$

(15 marks)

- (b) Suppose that the Hathaway Development Bhd. is significantly geared and its capital structure is not entirely debt free. Total amount of debt as shown in the firm's balance sheet is RM 282,627,000 with the average cost of debt is around 9 per cent. Corporate tax during the fiscal year is at 25 per cent.

Based on the dividend-growth model (as stated in **Q(2a)**), calculate the value of Hathaway Development Bhd.

(15 marks)

- (c) By comparing valuation in **Q2(a)** and **Q2(b)**, discuss the effect of require rate of return on firm value.

(5 marks)

- Q3 (a)** Hedgeford Sdn Bhd is a subsidiary company of Globe Corporation Bhd. The board directors of the Globe Corporation Bhd have decided to divest this subsidiary company in line with the group strategy to focus only on property investment activity. The following financial information in table **Q4(a)** is related to Rapid Fleet Sdn Bhd.

**Table Q4(a):** Selected Financial Information of Hedgeford Fleet Sdn Bhd

$Year_{(t)}$	$FCF_{(t)}$ (RM)	Other information
2013	30,000,000	<ul style="list-style-type: none"> <li>• Growth rate of FCF beyond 2017, <math>g_{FCF} = 5.5</math> per cent</li> <li>• WACC, <math>r_a = 12</math> per cent</li> <li>• Market value of debt, <math>V_D = RM31,000,000</math></li> <li>• Market value of preferred stock, <math>V_P = RM120,000,000</math>.</li> </ul>
2014	36,000,000	
2015	43,000,000	
2016	47,000,000	
2017	51,000,000	

Calculate the value of common stocks which represent the value of Globe Corporation's equity in Hedgeford Sdn Bhd using the Free Cash Flow (FCF) method.

(12 marks)

- (b)** The following table **Q4(b)** is information for Coastal Sdn. Bhd. and Highlands Bhd.

**Table 4(b):** Information of Coastal Sdn. Bhd. and Highlands Bhd.

Coastal Sdn. Bhd.	Highlands Bhd.
Type of business : Property Development	Type of Business: Property Development
Forecasted EPS = RM1.50	Forecasted EPS = RM0.80
Current market price = Unknown due to it is unlisted company	Current market price = RM 20 per share
Paid up capital =RM 1,000,000 @ par value RM0.50/share	Paid up capital = RM 1,000,000 @ par value RM0.50/share

Calculate the value of Coastal Sdn. Bhd. and Highlands Bhd.

(8 marks)

**Q4** For public listed companies, information about its financial standing is publicly available through its annual report or from other sources such as third-party data provider. There are numbers of important information including the structure of board of directors and other corporate governance information. However, for a business analyst what important is the information on company's financial structure.

- (a) Describe the importance of financial information in business valuation (5 marks)
- (b) Discuss the purpose of the following financial statements that can be found in a company's annual report.
- i. Statement of balance sheet (5 marks)
  - ii. Statement of income (5 marks)
  - iii. Statement of cash-flow (5 marks)

**-END OF QUESTION-**