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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2014/2015**

COURSE NAME : BUSINESS VALUATION
COURSE CODE : BPE44903
PROGRAMME : 4 BPD
EXAMINATION DATE : DECEMBER 2014/JANUARI 2015
DURATION : 3 HOURS
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF **FOUR (4)** PAGES

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Q1 (a) Palm Development's dividend is forecast to increase by 6 percent every year and the next dividend is expected RM4 per share. If investors require a 15 percent return on companies such as Palm Development.

(i) Compute the value of Palm's stock as at present based on dividend growth model. (5 marks)

(ii) Determine the stock value in four years. (5 marks)

(b) Superb Properties' profit has been growing at a phenomenal rate of 30 percent per year due to its rapid expansion and explosive sales. Recently the company has just paid dividend totaling RM5 million. You believe that this growth rate will last for three more years before and the rate will then reduce to 10 percent per year.

Analyze total value of the stock for Superb Property by assuming that growth rate will remain at 10 percent indefinitely, and require rate of return is 20 percent. (15 marks)

Q2 (a) "Characteristic of an efficient market is that investments in that market have zero net present value."

Explain the above statement within the context of market efficiency. (10 marks)

(b) "Playing the stock market is like gambling. Such speculating activities has no social value, other than the pleasure that people get from this form of gambling".

Analyse the above statement within the context of business analysis. (15 marks)

- Q3** (a) The PRCC Properties has 1.4 million shares outstanding. The stock currently sells for RM20 per share. The firm's debt is publicly traded and was recently quoted at 93 percent of face value. It has a total face value of RM5 million, and it is currently priced to yield 11 percent. The risk-free rate is 8 percent and the market risk premium is 7 percent. You have estimated that PRCC has a beta of 0.74.

Outline the PRCC Properties Weighted Average Cost of Capital (WACC) by assuming that the corporate tax is 34 percent.

(10 marks)

- (b) HICO is a property investment company currently at its target debt-equity ratio of 100 percent. It is currently considering building a new RM5,000,000 retail mall in Nusajaya. This new building is expected to generate after tax cash flows of RM731,150 per year forever. The tax rate is 34 percent. There are two financing options:

- A RM5 million new issue of common stock. The issuance cost of the new common stock would be about 10 percent of the amount raised. The required rate of return on the company's new equity is 20 percent.
- A RM5 million issue of 30-year bonds. The issuance costs of the new debt would be 2 percent of the proceeds. The company can raise a new debt at 10 percent.

Propose the most profitable option for HICO to construct the construction of new retail mall.

(15 marks)

Q4 Ms. Aznar own shares of Nuang & Co., a prominent property consultancy firm, is debating whether or not to convert its all-equity capital structure to one that is 40 percent debt. At present, there are 2,000 shares outstanding and the price per share is RM70. Earnings Before Interest and Tax (EBIT) is expected to remain at RM16,000 per year indefinitely. The interest rate on new debt is 10 percent and there are no taxes.

(a) Determine Ms. Aznar cash flow under the current capital structure assuming she has 100 shares of stock and the firm has a dividend payout rate of 100 percent.

(5 marks)

(b) Determine Ms. Aznar new cash flow under the proposed capital structure by assuming she keeps all 100 of the shares.

(5 marks)

(c) Assuming that Nuang & Co. does convert to the proposed capital structure.

Illustrate how she could unlever her shares of stock to recreate the original capital structure should Ms. Aznar prefer the current capital structure.

(15 marks)

-END OF QUESTION-