



**UTHM**

Universiti Tun Hussein Onn Malaysia

**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER I  
SESSION 2015/2016**

COURSE NAME : BUSINESS VALUATION  
COURSE CODE : BPE 44903  
PROGRAMME : 4 BPD  
EXAMINATION DATE : DECEMBER 2015 / JANUARY 2016  
DURATION : 3 HOURS  
INSTRUCTION : ANSWER ALL QUESTIONS

THIS QUESTION PAPER CONSISTS OF **SIX (6)** PAGES

- Q1 (a)** SD Holdings Berhad, the property investment syndication company, included the following note in its 2011 annual report.

*Dutch Auction Self-Tender Stock Repurchase*

On July 28, 2011, the Board of Directors authorised the purchase by the Company of up to 24 million shares of the Company's common stock pursuant to Dutch Auction self tender offer. The tender offer price range was from RM30 to RM36 net per share in cash. Self tender offer commenced on July 30, 2011. As a result of the self tender offer, the Company repurchased approximately 17 million common shares at a price of RM36 per share. Prior to the tender offer, the Company had 72.5 million common shares outstanding. As a result of the tender offer share repurchase, the company had 55.8 million common shares outstanding at December 31, 2011. In conjunction with this repurchase and as described in Notes 6 and 8, the Company entered into new credit agreement underwritten by a syndicate of major banks.

SD Holdings borrowed RM640 million under the credit agreement to finance the stock repurchase. It also announced that it was dropping its quarterly dividend.

Analyse the effect of these activities on SD Holdings share price during August 2011. (15marks)

- (b) Table Q1(b)** provides accounting data from the 2012 annual reports of six property companies. The market value of the equity of five of the companies is also given. All numbers are in millions of Ringgit Malaysia (RM).

**Table Q1(b): Companies Financial Information**

Company	Market Value	Price/Book	Revenue	Land Banks	Net Income
A	RM8,096.71	5.6	RM1,571.00	RM307.00	RM406.00
B	1,379.00	3.6	152.00	101.00	15.00
C	2,233.60	4.6	413.00	158.00	28.00
D	925.00	2.5	138.00	109.00	-7.00
E	588.53	4.5	151.00	81.00	-34.00
F	X	Y	795.40	314.30	124.40

Estimate a value for F Berhad by considering that F Berhad had a book value of RM1,349 million in 2012.

(10marks)

**Q2** Table Q2 shows the free cash flow forecasts for the year 2000, 2001 and 2002 for KYG Property Group, developed at the end of fiscal year 1999.

**Table Q2: Free Cash Flow Forecasts (RM '000)**

Forecast	2000F	2001F	2002F
Earnings	1,666	2,177	1,246
Accrual adjustment	2,260	2,018	2,551
Levered CF from operations	3,926	4,195	3,797
Interest payments	34	49	31
Interest receipts	(158)	(305)	(314)
Net interest payments	(124)	(256)	(283)
Tax @ 35%	43	(81)	99
Cash flow from operations	3,845	4,029	3,613
Cash investment in operations	(401)	(482)	(303)
Free cash flow	3,444	3,547	3,310

Additional information from the Company's balance sheet as at the end of 1999 fiscal year are given as follows:

- Investments in interest-bearing deposits and bond RM2,661 million
- Long-term debt RM 512 million
- Common shares outstanding 2,543 million

- (a) Value the Company share by assuming that the cost of capital is at 12 percent.  
(10 marks)
- (b) Value the Company by assuming that the free cash flow will continue as a perpetuity after 2002.  
(7.5 marks)
- (c) Value the Company by assuming that the free cash flow will grow at a 3 percent rate after 2002.  
(7.5 marks)

**Q3** Table Q3 in Appendix I shows the balance sheets and income statements for TanahMera Development that have been reformulated to place them on a comprehensive income basis and to distinguish operating and financing activities.

**Table Q3: Balance Sheets and Income Statements (RM '000)**

BALANCE SHEETS	2007	2008	2009	2010
Net Operating Asset				
Accounts receivable, net of doubtful accounts	266,992	324,376	497,887	711,107
Inventories	223,107	194,083	324,650	459,538
Deferred tax	37,479	32,821	44,054	109,625
Other current assets	13,094	14,365	35,580	81,472
Net property, plant and equipment	74,698	85,874	280,099	364,111
Purchased intangibles	-	1,295	95,818	66,313
Other assets	19,034	14,585	15,187	18,437
Accounts payable	(215,909)	(267,189)	(355,117)	(498,829)
Accrued warranty expense	(42,410)	(55,617)	(57,001)	(62,289)
Accrued compensation	(17,189)	(15,315)	(54,917)	-
Income taxes payables	(19,020)	-	(17,566)	(11,232)
Accrued exit and restructuring costs	-	-	(32,213)	(103,165)
Other accrued liabilities	(21,825)	(35,545)	(77,227)	(152,734)
Net Operating Assets	318,051	293,733	699,234	982,354
Net Financial Obligations				
Cash and cash equivalents	(121,898)	(217,531)	(187,753)	(164,752)
Marketable securities	(170,751)	(112,508)	-	-
Short-term debt	-	-	50,000	4,125
Subordinated debentures	212,500	212,500	212,500	374,283
Long-term debt	-	-	115,000	223,875
Net Financial Obligations	(80,149)	(117,539)	189,747	437,531
Common Shareholders' Equity	398,200	411,272	509,487	544,823

INCOME STATEMENTS	2007	2008	2009	2010
<b>Core Operating Income</b>				
Sales	1,697,240	2,131,054	3,367,984	4,422,726
Cost of Sales	(1,374,422)	(1,892,211)	(2,804,271)	(3,880,309)
<b>Operating Expenses</b>				
Research and development	(63,019)	(89,837)	(169,282)	(239,116)
Sales and marketing	(77,085)	(74,015)	(108,290)	(142,413)
General and administration	(33,849)	(41,910)	(52,134)	(65,145)
<b>Operating Cost and Expenses</b>	<b>(173,953)</b>	<b>(205,762)</b>	<b>(329,706)</b>	<b>(446,674)</b>
<b>Operating Income</b>	<b>148,865</b>	<b>33,081</b>	<b>234,007</b>	<b>95,743</b>
Tax on noncore income	(53,408)	(9,226)	(88,551)	(15,501)
<b>Core operating income, after tax</b>	<b>95,457</b>	<b>23,855</b>	<b>145,456</b>	<b>80,242</b>
Unusual Operating Income	-	(16,382)	(52,520)	(150,568)
<b>Operating Income</b>	<b>95,457</b>	<b>7,473</b>	<b>92,936</b>	<b>(70,326)</b>
Net Financial Expenses	(1,646)	(4,799)	(11,345)	(20,130)
<b>Net income available in common</b>	<b>93,811</b>	<b>2,674</b>	<b>81,591</b>	<b>(90,456)</b>

- (a) Compare the operating and financing profitability from 2008 to 2010. (15 marks)
- (b) Analyse how the firm went from a net creditor position to a net debtor position from 2008 to 2010. (10 marks)

**Q4** Keladi Maju's 55.84 million shares traded at RM43 each in early 2007, or 6.3 times their book value. The firm's year-end balance sheet for 2006 is summarised as follows:

Net operating assets	RM1,135,000,000
Net financial obligations	720,000,000
	415,000,000
Minority interest	34,000,000
Common stockholders' equity	381,000,000

During 2006, KeladiMaju earned a core return on net operating assets (core RNOA) of 14.6 percent on a (after tax) core profit margin of 4.94 percent and an asset turnover of 2.95. The require rate of return on its operations is 10.1 percent.

- (a) Calculate the unlevered price-to-book ratio at which KeladiMaju traded in early 2007. (5 marks)
- (b) Determine the sales growth rate that would justify the unlevered price-to-book ratio if KeladiMaju were to maintain profit margin and asset turnover at their 1996 level in the future. (10 marks)
- (c) Determine the contribution of sales growth rate to the firm's value if profit margin were to fall to 3.42 percent. (10 marks)

**-END OF QUESTIONS-**