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UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER I
SESSION 2016/2017

COURSE NAME	:	BUSINESS VALUATION
COURSE CODE	:	BPE 44903
PROGRAMME	:	4 BPD
EXAMINATION DATE	:	DECEMBER 2016 / JANUARY 2017
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

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

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Q1 Zapin Corporation is a firm that specialises in Property Management Services. In the current year, the firm reported RM20 million in after-tax operating income, RM15 million in capital expenditures and RM5 million in depreciation. The firm expects all three items to grow at 10 percent for the next five years. Beyond the fifth year, the firm expects to be in stable growth and at 4 percent a year in perpetuity. You assume that earnings, capital expenditures and depreciation will at 4 percent in perpetuity. The cost of capital and equity risk premium is assumed at 2 and 5 percent, respectively.

(a) Compute the terminal value of the firm.

(5 marks)

(b) Estimate the terminal value of the firm by assuming that the capital expenditures offset depreciation in stable growth.

(10 marks)

(c) Determine the return on capital that assuming to be in perpetuity by fixing capital expenditures equal to depreciation.

(10 marks)

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Q2 Travelodge, a firm in hospitality business, reported earning before interest and taxes of £60 million last year, but you have uncovered the following additional items of interest:

- The firm had operating lease expanses of £50 million last year and has a commitment to make equivalent payments for the next eight years.
- The firm reported capital expenditures of £30 million and depreciation of £50 million last year. However, the firm also made two acquisitions, one funded with cash for £50 million and another funded with a stock swap for £30 million. The amortisation of these acquisitions is already included in the current year's depreciation.
- The total working capital increased from £180 million at the start of the year to £200 million at the end of the year. However, the firm's cash balance was a significant portion of this working capital and increased from £80 million at the start of the year to £120 million at the end. (The cash is invested in T-bills)
- The tax rate is 40 percent. The firm's pretax cost of debt is 6 percent and an equity risk premium is at 5 percent.

Estimate last year free cash flow to the firm.

(25 marks)

Q3 Fork & Spoon, which operates restaurants and gift shops, reported dramatic growth in earning and revenues between 2003 and 2012. During this period, earning grew from RM0.08 per share in 2003 to RM0.78 per share in 2013. The dividend paid in 2013 amounted to RM0.02 per share. The earnings growth rate was expected to ease to 15 percent a year from 2014 to 2018 and to 6 percent a year thereafter. The payout ratio was expected to increase to 10 percent from 2014 to 2018 and 50 percent after that. The beta of the stock was 1.55, but it was expected to decline to 1.25 for the 2014-2018 time period and 1.10 after that. (The Treasury bond rate was 7 percent and the risk premium is 5.5 percent.)

(a) Compute the PE ratio.

(5 marks)

(b) Estimate maximum PE ratio would have been if it had been able to maintain the growth rate in earning that it had posted between 2003 and 2013 by basing the assumption that the dividend payout ratios are not affected.

(10 marks)

(c) Assuming that the dividend payout ratios are not affected and that disappointing earning reports in the near future lower the expected growth rate between 2014 and 2018 to 10 percent.

Estimate the PE ratio.

(10 marks)

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Q4 Consider that you have done a regression of PBV ratios for all firms on the Bursa Malaysia, and arrived at the following findings:

PBV = 0.88 + 0.82 Payout + 7.79 Growth – 0.41 Beta + 13.81 ROE R-Squared = 0.65

Where;
Payout = Dividend payout ratio during most recent period
Growth = Projected growth rate in earning over next five years
Beta = Beta of the stock in most current period

To illustrate, a firm with a payout ratio of 40 percent, a beta of 1.25, ROE of 25 percent and expected growth rate of 15 percent would have had a price-book value ratio of:

PBV = 0.88 + 0.82(0.4) + 7.79(0.15) – 0.41(1.25) + 13.81(0.25) = 5.3165

(a) Interpret the regression findings.

(15 marks)

(b) Assume that you have also run a sector regression on a company and estimated a price-book-value ratio based on that regression.

Explain what might be the reason that the result from the market regression is different from the sector regression.

(10 marks)

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-END OF QUESTION-