Universiti Tun Hussein Onn Malaysia

UNIVERSITI TUN HUSSEIN ONN MALAYSIA

FINAL EXAMINATION
SEMESTER I
SESSION 2019/2020

COURSE NAME	:	BUSINESS VALUATION
COURSE CODE	:	BPE 44903
PROGRAMME	:	BPD
EXAMINATION DATE	:	DECEMBER 2019 / JANUARY 2020
DURATION	:	3 HOURS
INSTRUCTION	:	ANSWER **ALL** QUESTIONS

THIS QUESTION PAPER CONSISTS OF **THREE (3)** PAGES

Q1 (a) The next dividend for Pine Holdings will be RM4 per share. Investors require a 15 percent return on companies such as Pine Holdings. Pine's dividend increases by 6 percent every year.

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

(5 marks)

(ii) Determine the stock value in four years.

(5 marks)

(b) Bike Trading 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 and the rate will then reduce to 10 percent per year.

Estimate Bike Trading total value of the stock by assuming that growth rate will remains at 10 percent indefinitely, and require rate of return is 20 percent.

(15 marks)

Q2 LIDL is a retail chain company that is currently at its target debt-equity ratio of 100 percent. It is presently considering opening a new RM5,000,000 retail complex in Nusajaya. This new retail 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 available:

- 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.

Evaluate the optimal capital structure based on the given financing options for the proposed retail complex.

(25 marks)

Q3 Procter and Gamble (P&G) is one of the leading global consumer product companies, owning some of the most valuable brands in the world. P&G's long history of paying dividends makes it a good candidate for the dividend discount model, and while it is a large company, its brand names and global expansion provide it with a platform to deliver high growth at least for the next few years.

To set the stage, P&G reported $12,736 million in earnings for 2010 and paid out 49.75% of these earning as dividends; on a per share basis, earning were $3.82 and dividends were $1.92 in 2010. Firm's beta was 0.90, reflecting the beta of large consumer products companies in 2010, a risk free rate 3.50%, a mature market equity risk premium of 5%, and firm's current return on equity is 20.09%.

(Investment Valuation, 2012)

(a) Compute the firm's cost of equity.

(5 marks)

(b) Compute the firm's expected growth rate for the next five years.

(5 marks)

(c) After year five, it is assumed that the firm will be in stable growth, growing at 3% per year and firm return on equity will reduce to a more sustainable rate at 12% in perpetuity.

Estimate the firm's value per share.

(15 marks)

Q4 Tidal Corporation reported earnings per share RM2.02 in 2017, and paid no dividends. These earnings were expected to grow at 14% a year for five years (2018 to 2022) and 7% a year thereafter. The company reported total asset depreciation of RM2 million in 2017 and capital spending of RM4.2 million and had 7 million shares outstanding. The working capital was expected to remain at 50% of revenues, which were RM106 million in 2017, and were expected to grow at 6% a year between 2018 and 2022 and 4% a year subsequently. The firm was expected to finance 10% of its capital expenditures and working capital needs with debt. Tidal Corporation has a beta of 1.2 in 2017, and this beta was expected to reduce to 1.10 after 2022 (The Malaysia Government bond rate was 7%, and the market risk premium was 5.5%).

(a) Estimate the expected free cash flow to equity between 2018 and 2022, assuming capital expenditures and depreciation grow at the same rate of earnings.

(10 marks)

(b) Compute the terminal price per share.

(5 marks)

(c) Estimate value per share today based on free cash flow to equity model.

(10 marks)

-END OF QUESTIONS-