



**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER II  
SESSION 2021/2022**

- COURSE NAME : BUSINESS VALUATION
- COURSE CODE : BPE 35403
- PROGRAMME CODE : 4 BPD
- EXAMINATION DATE : JULY 2022
- DURATION : 3 HOURS
- INSTRUCTION
1. ANSWER ALL QUESTIONS.
  2. THIS FINAL EXAMINATION IS CONDUCTED VIA **CLOSED BOOK**.
  3. STUDENTS ARE **PROHIBITED** TO CONSULT THEIR OWN MATERIAL OR ANY EXTERNAL RESOURCES DURING THE EXAMINATION CONDUCTED VIA CLOSED BOOK

THIS QUESTION PAPER CONSISTS OF **FIVE (5)** PAGES

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

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

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

(b) Bike Trading has been growing at a phenomenal rate of 30 per cent per year due to its rapid expansion and explosive sales. Recently the company has just paid dividends totalling RM5 million. You believe that this growth rate will last for three more years, and the rate will then reduce to 10 per cent per year.

Estimate Bike Trading's total value of the stock by assuming that the growth rate will remain at 10 per cent indefinitely and the required rate of return is 20 per cent. (15 marks)

**Q2** In 2009, following the worldwide credit crisis, several US-based car manufacturers, such as Chrysler and General Motors, approached bankruptcy and needed to be bailed out by the US government and private investors. Italy-based Fiat Group SpA decided to help rescue Chrysler by acquiring 20 to 35 per cent of the car manufacturer's shares. In exchange, Fiat would get access to Chrysler's vehicle platforms and manufacturing facilities, which could eventually help the Italian manufacturer to re-enter the US market. Following the initial rumours about private negotiations between Fiat and Chrysler and Fiat's (coinciding) announcement that it would not pay dividends for 2008, Fiat's share price dropped by more than 25 per cent in one week. The question arose whether Fiat's performance was stronger than Chrysler's.

The following tables show the financial statements of the Fiat Group SpA for the fiscal years 2006-2008. In all three years, Fiat earned a return on equity of over 12 per cent.

<b>Income Statement (€ millions)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net revenues	59,380	58,529	51,832
Cost of sales	(49,423)	(48,924)	(43,888)
Selling, general, and administration costs	(5,075)	(4,924)	(4,697)
Research and development costs	(1,497)	(1,536)	(1,401)
Other income (expenses)	(23)	88	105
<b>Trading profit</b>	<b>3,362</b>	<b>3,233</b>	<b>1,951</b>
Gains (losses) on the disposal of investments	20	190	607
Restructuring costs	(165)	(105)	(450)
Other unusual income (expenses)	(245)	(166)	(47)
<b>Operating profit/(loss)</b>	<b>2,972</b>	<b>3,152</b>	<b>2,061</b>

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Financial income (expenses)	(947)	(564)	(576)
Results from investments	162	185	156
<b>Profit before taxes</b>	<b>2,187</b>	<b>2,773</b>	<b>1,641</b>
Income taxes	(466)	(719)	(490)
<b>Profit from continuing operations</b>	<b>1,721</b>	<b>2,054</b>	<b>1,151</b>
Profit from discontinued operations	0	0	0
<b>Net profit/(loss)</b>	<b>1,721</b>	<b>2,054</b>	<b>1,151</b>

<b>Balance sheet (€ millions)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Intangible assets	7,048	6,523	6,421
Property, plant and equipment	12,607	11,246	10,540
Investment property	0	10	19
Investment and other financial assets	2,177	2,144	2,280
<b>Balance sheet (€ millions)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Leased assets	505	396	247
Defined benefit plan assets	120	31	11
Deferred tax assets	2,386	1,892	1,860
<b>Total non-current assets</b>	<b>24,843</b>	<b>22,312</b>	<b>21,378</b>
Inventories	11,346	9,990	8,548
Trade receivables	4,390	4,384	4,944
Receivables from financing activities	13,136	12,268	11,743
Current tax receivables	770	1,153	808
Other current assets	2,600	2,291	2,278
Current financial assets	967	1,016	637
Cash and cash equivalents	3,683	6,639	7,736
<b>Total current assets</b>	<b>36,892</b>	<b>37,741</b>	<b>36,694</b>
Assets held for sale	37	83	332
<b>TOTAL ASSETS</b>	<b>61,772</b>	<b>60,136</b>	<b>58,404</b>
Shareholders' equity	10,354	10,606	9,362
Minority interest	747	673	674
Employee benefits	3,366	3,597	3,761
Other provisions	4,778	4,965	4,850
Asset-backed financing	6,663	6,820	8,344
Other debt	14,716	11,131	11,844
Other financial liabilities	1,202	188	105
Trade payable	13,258	14,725	12,603
Current tax payables	331	631	311
Deferred tax payables	170	193	263
Other current liabilities	6,185	6,572	5,978

Liabilities held for sale	2	35	309
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>61,772</b>	<b>60,136</b>	<b>58,404</b>

<b>Cash flow statement (€ millions)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net profit/(loss)	1,721	2,054	1,151
Amortisation and depreciation (net of vehicles sold under buy-back commitments)	2,901	2,738	2,969
Gains (losses) on disposal	(50)	(297)	(575)
Other non-cash items	253	(138)	7
Dividend received	84	81	69
Change in provisions	(161)	6	229
<b>Cash flow statement (€ millions)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Change in deferred taxes	(490)	(157)	(26)
Change in items due to buy-back commitments	(88)	34	(18)
Change in working capital	(3,786)	1,588	812
<b>Cash flows from (used in) operating expenses</b>	<b>384</b>	<b>5,909</b>	<b>4,618</b>
<b>Cash flows from (used in) investment activities</b>	<b>(6,310)</b>	<b>(4,601)</b>	<b>(1,390)</b>
<b>Cash flow from (used in) financing activities</b>	<b>3,127</b>	<b>(2,375)</b>	<b>(1,731)</b>
Translation exchange differences	(159)	(33)	(173)
<b>Total change in cash and cash equivalents</b>	<b>(2,958)</b>	<b>(1,100)</b>	<b>(1,324)</b>

- (a) Analyse Fiat's performance using appropriate financial ratios. (10 marks)
- (b) Evaluate the critical performance drivers during the period between 2006 and 2008. (15 marks)

**Q3** Free cash flows (FCF) used in Discounted Cash Flows (DCF) valuations are defined as follows:  

$$\text{FCF to debt and equity} = \text{Earnings before interest and taxes} \times (1 - \text{tax rate}) + \text{Depreciation and deferred taxes} - \text{Capital expenditures} - / + \text{Increase/decrease in working capital}$$

$$\text{FCF to equity} = \text{Net profit} + \text{Depreciation and deferred taxes} - \text{Capital Expenditures} - / + \text{Increase/decrease in working capital} + / - \text{Increase/decrease in debt}$$

- (a) Explain how the following items affect either FCF to debt and equity or FCF to equity.
- (i) An increase in trade receivables. (5 marks)
  - (ii) An increase in property, plant, and equipment. (5 marks)
  - (iii) Interest expense. (5 marks)
- (b) It is argued that the DCF valuation method has increased managers' focus on short-term rather than long-term performance since the discounting process places much heavier weight on short term cash flows than long term ones.

Evaluate the significance of the above statement.

(10 marks)

**Q4** Megah Holdings reported earnings per share of RM2.02 in 2020 and paid no dividends. These earnings were expected to grow 14% a year for five years (2021 to 2025) and 7% a year thereafter. The company reported 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 2020, and was expected to grow at 6% a year between 2021 and 2025 and 4% a year subsequently. The firm was expected to finance 10% of its capital expenditures and working capital needs with debt. Megah Holdings had a beta of 1.2 in 2017, and this beta was expected to reduce to 1.10 after 2025. (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 2021 and 2025, assuming capital expenditures and depreciation grow at the same rate as 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 QUESTION-**

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