

**CONFIDENTIAL**



**UNIVERSITI TUN HUSSEIN ONN MALAYSIA**

**FINAL EXAMINATION  
SEMESTER II  
SESSION 2023/2024**

COURSE NAME : BUSINESS VALUATION

COURSE CODE : BPE 35403

PROGRAMME CODE : BPD

EXAMINATION DATE : JULY 2024

DURATION : 3 HOURS

INSTRUCTION

1. ANSWER **ALL** QUESTIONS
2. THIS FINAL EXAMINATION IS CONDUCTED VIA  
 Open book  
 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

**CONFIDENTIAL**

**TERBUKA**

- 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 Palm’s stock as at present based on dividend growth model. (5 marks)
  - (ii) Determine the stock value in four years. (5 marks)
- (b) The following are some accounting numbers and market value (in millions) for Hewlett-Packard and Lenovo Group for 2018. The two computer manufacturers are considered to be comparable for Dell, Inc.

**Table Q1.1:** Financial Metrics and Market Value (in Millions) for Hewlett-Packard and Lenovo Group in 2018

	Sales	Earnings	Book Value	Market Value
Hewlett-Packard Co.	84,299	7,264	38,526	115,700
Lenovo Group Ltd.	14,590	161	1,134	6,381

Dell reported the following numbers for fiscal year 2018:

Sales	\$61,133
Earnings	\$2,947
Book value	\$3,735

Value Dell’s 2,060 million outstanding shares.

(15 marks)

- Q2** United Holdings Inc. is a company in four different businesses, and you have been asked to do a relative valuation of the company. You have collected the following information on United’s performance in each business for the most recent year.

**Table Q2.1:** United’s Performance in Respective Business Segment

Business	Revenues (RM)	EBITDA (RM)	Net Interest Expense (RM)	Net Income (RM)
Steel	2 billion	100 million	20 million	30 million
Technology	1 billion	100 million	10 million	60 million
Chemicals	1 billion	50 million	20 million	5 million
Financial Service.	1 billion	NA	50 million	50 million

The company has RM1.2 billion in debt outstanding and a cash balance of RM200 million. The net interest expense is allocated to each of the divisions, based upon the estimated net debt of that division. There are 100 million shares outstanding.

You find comparable firms within each business and estimate the median values for different multiples for each business:

**Table Q2.2: Multiple Median Values for Respective Business Segment**

Business	Multiple	Median Value
Steel	EV/EBITDA	6.00
Technology	EV/Revenues	1.25
Chemicals	EV/EBITDA	5.00
Financial Service.	PE	12

Estimate the United Holdings equity value per share, assuming United’s each business trade at the median value of other companies in the respective business.

(25 marks)

- Q3 (a)** State whether the following transactions affect cash flow from operation, free cash flow, financing flows, or none of them.
- (i) Payment of receivable by a customer.
  - (ii) Sale to a customer on credit.
  - (iii) Expenditure on plant, property and equipment.
  - (iv) Payment of interest.
  - (v) Sale of accounts receivable.

(5 marks)

- (b) Consider the following **Table Q3.1**.

**Table Q3.1: Comparative Balance Sheet for Liquidity Company.**

	December 31	
	2023 (RM)	2022 (RM)
Operating cash	435,000	50,000
Accounts receivable	40,000	-0-
Inventories	100,000	-0-
Land	400,000	800,000
Plants assets	200,000	200,000
Less: accumulated depreciation	(100,000)	-0-
	<u>1,075,000</u>	<u>1,050,000</u>
Accounts payable	25,000	-0-
Equity	<u>1,050,000</u>	<u>1,050,000</u>
	1,075,000	1,050,000

The company paid a dividend of RM150,000 during 2023 and there were no equity contributions or stock repurchases.

- (i) Calculate the amount of free cash flow generated in 2023. (5 marks)
- (ii) Explain the source of cash increment in 2023. (5 marks)
- (iii) Assess the change in calculation in part **Q3b(i)** if the company invested in short-term deposits instead of paying dividend.

**Q4** The toys-and-games industry consists of a select group of global players. The RM60 billion industry (excluding videos) is dominated by two U.S. toy makers: Mattel (Barbie, Hot Wheels, Fisher-Price) and Hasbro (G.I. Joe, Tonka, Playskool). International players include Japan’s Bandai Co. (Digimon) and Sanrio (Hello Kitty), as well as Denmark’s LEGO Holding. Success in this industry depends on creating cross-culturally appealing brands backed by successful marketing strategies. Toy companies succeed by scoring the next big hit with their target consumers and unveiling the “must-have” toys. Historically, we have seen significant merger and acquisition activity and consolidation among brands in this industry.

Toy Co. Inc. is a multi-brand company that designs and markets a broad range of toys and consumer products. The product categories include Action Figures, Art Activity Kits, Stationery, Writing Instruments, Performance Kites, Water Toys, Sports Activity Toys, Vehicles, Infant/Pre-School, Plush, Construction Toys, Electronics, Dolls, Dress-Up, Role Play, and Pet Toys and Accessories. The products are sold under various brand names. The target designs, manufacturers, and markets various toy products worldwide through sales to retailers and wholesalers and directly to consumers. Its stock price closed on 31 December 2023 at RM19.49 per share.

**Table Q4: Planning Period Cash Flow Estimates**

<b>Toy Co. Inc. (RM in Millions)</b>		<b>Projected Cash Flow</b>			
<b>Fiscal Year Ended</b>	<b>31/12/2024</b>	<b>31/12/2025</b>	<b>31/12/2026</b>	<b>31/12/2027</b>	<b>31/12/2028</b>
Net Operating Income	RM733.16	RM757.63	RM783.64	RM799.32	RM815.30
Taxes	201.27	207.98	235.09	239.80	244.59
Depreciation	183.58	186.21	191.80	195.64	199.55
CAPEX	180.00	212.82	219.20	223.59	228.06
(increase) in Working Capital	(50.37)	43.54	(27.68)	(19382)	(20.21)

Additional information:

- The estimated borrowing rate is 6.125% with a tax rate of 27.29%
- The beta for Toy Co. is 0.777, with a 10-year Treasury bond yield of 4.66% and a market risk premium of 7.67%.
- Shares of common equity as of 31 December 2023: 422,040,500 shares outstanding; closing share price was at RM19.49; debt value outstanding on 31 December 2023 was at RM618,100,000.

**CONFIDENTIAL**

BPE 35403

Research on various historical merger and acquisition transactions suggests that comparable toy companies have been acquired at Enterprise Value/EBITDA multiples of 10.5x – 11.5x.

Estimate the value of Toy Co. Inc.'s equity (per share basis) on 31 December 2023.

(25 marks)

**-END OF QUESTIONS-**

**CONFIDENTIAL**

**TERBUKA**

CONFIDENTIAL  
This document contains confidential information and is intended only for the use of the individual named.  
If you have received this document by mistake, please notify the sender immediately by email or phone.  
You should not disseminate, distribute or copy this document.  
If you have any questions about this document, please contact the sender.