

**SULIT**



**BAHAGIAN PEPERIKSAAN DAN PENILAIAN  
JABATAN PENDIDIKAN POLITEKNIK  
KEMENTERIAN PENDIDIKAN TINGGI**

**JABATAN PERDAGANGAN**

**PEPERIKSAAN AKHIR**

**SESI JUN 2016**

**APA9033: FINANCIAL MANAGEMENT 2**

**TARIKH : 31 OKTOBER 2016  
MASA : 08.30 AM - 11.30 AM (3 JAM)**

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Kertas ini mengandungi **SEPULUH (10)** halaman bercetak.  
Esei (4 soalan)

Dokumen sokongan yang disertakan : Formula & Jadual PVIF dan PVIFA

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**JANGAN BUKA KERTAS SOALAN INI SEHINGGA DIARAHKAN**

(CLO yang tertera hanya sebagai rujukan)

**SULIT**

**ESSAYS (100 marks)**

**Instruction:** This section consists of **FOUR (4)** questions. Answer **ALL** questions.

**QUESTION 1**

BBC Berhad is a stock exchange listed company that is concerned by its current level of debt finance. It plans to make a rights issue and to use the funds raised to pay off some of its debt. The rights issue will be at a 20% discount to its current ex-dividend share price of RM7.50 per share and BBC Berhad plans to raise RM 90 million. BBC Berhad believes that paying off some of its debt will not affect its price/earnings ratio, which is expected to remain constant.

Statement of profit or loss information:

	RM m
Turnover	472
Cost of sales	<u>423</u>
Profit before interest and tax	49
Interest	<u>10</u>
Profit before tax	39
Tax	<u>10</u>
Profit after tax	<u>29</u>

Statement of financial position information

	RM m
Equity:	
Ordinary shares (RM 1 nominal)	60
Retained earnings	<u>82</u>
	142
Long-term liabilities:	
8% bonds (RM100 nominal)	<u>125</u>
	<u>267</u>

The 8% bonds are currently trading at RM112.50 per RM 100 bond and bondholders have agreed that they will allow BBC Berhad to buy back the bonds at this market value. BBC Berhad pays tax at a rate of 25% per year.

You are required to:

CLO1  
C2

- a) Calculate the theoretical ex rights price (TERP) per share and the value of rights per existing share of BBC Berhad following the rights issue.

[8 marks]

CLO1  
C2

- b) Calculate the revised share price as planned by the company ; that is using the cash raised by the rights issue to buy back bonds by assuming that the current price/earnings ratio will be remained constant. Give your comments on your answer.

[7 marks]

CLO1  
C3

- c) Describe under what circumstances might BBC Berhad be tempted to pay dividends which is in excess of earnings and what are the dangers associated with such an approach. You should ignore tax in answering this question.

[6 marks]

CLO 1  
C3

- d) As an alternative, BBC Berhad is considering whether to raise finance by means of a bond issue or an issue of preference share. Describe the reasons why the company might choose to issue bonds rather than preference shares to raise the required finance.

[4 marks]

## QUESTION 2

CLO 2  
C2

- a) Maya Berhad is a profitable , listed manufacturing company, which is considering a project to diversify into the manufacture of computer equipment. This would involve investing RM 220 million on a new production plant.

It is expected that Maya Berhad will continue to be financed by 60% debt and 40% equity. The debt consists of 10% loan notes, redeemable at nominal value after 10 years with a current market value of RM 90. Any new debt is expected to have the same cost of capital.

Maya Berhad pays tax at a rate of 25%. The equity beta of Maya Berhad is estimated to be 1.21. The systematic risk of debt may be assumed to be zero. The risk free rate is 6.75% and market return is 12.5%.

The estimated equity beta of the main competitor in the same industry as the new proposed plant is 1.4, and the competitor's capital gearing is 35% equity and 65% debt by book values.

You are required to:

- i) Calculate the after-tax cost of debt of Maya Berhad's loan notes.  
[5 marks]
- ii) Calculate a project- specific discount rate for the proposed investment.  
[8 marks]

CLO 2  
C3

- b) Discuss **TWO (2)** circumstances under which the weighted average cost of capital can be used in investment.

[6 marks]

CLO2  
C3

- c) Discuss whether the dividend growth model or the capital asset pricing model offers the better estimate of the cost of equity of a company.

[6 marks]

**QUESTION 3**CLO1  
C2

- a) Below is the financial information related to Virtual Berhad , a stock market listed company.

	RM m
Profit after tax (earnings)	60.5
Dividends	40.0

Statement of financial position information :

	RM m	RM m
Non-current assets		575
Current assets		<u>125</u>
Total assets		<u>700</u>
Current liabilities		70
Equity	80	
Ordinary shares (RM1 nominal)	<u>410</u>	490
Non-current liabilities		
6% Bank loan	40	
8% Bonds (RM 100 nominal)	<u>100</u>	
		<u>140</u>
Total liabilities and equity		<u>700</u>

Financial analysts have forecasted that the dividends of Virtual Berhad will grow in the future at a rate of 4% per year. This is slightly less than the forecasted growth rate of the profit after tax (earnings) of the company, which is 5 % per year. The finance director of Virtual Berhad thinks that, considering the risk associated with expected earnings growth, an earnings yield of 11% per year can be used for valuation purposes.

Virtual Berhad has a cost of equity of 10% per year.

You are required to calculate the value of Virtual Berhad by using the following methods:

- i. net asset value method
- ii. dividend growth model
- iii. earnings yield method

[6 marks]

CLO1  
C3

- b) Discuss the weaknesses of the dividend growth model as a way of valuing a company and its shares.

[6 marks]

CLO1  
C4

- c) Distinguish between weak form, semi-strong form and strong form stock market efficiency. Discuss the significance to a listed company if the stock market on which its shares are traded is to be semi-strong form efficient.

[13 marks]

**QUESTION 4**CLO3  
C2

- a) Nuri Berhad , a Malaysian company owes a US supplier USD 5,000,000 which is payable in three months time. The spot exchange rate is \$ 0.2289 - \$ 0.2276 per RM 1. Nuri Berhad can borrow in Ringgit (RM) for 3 months at 8.6% per annum and can deposit USD for 3 months at 10% per annum.

- i) Calculate the cost in Ringgit (RM) with a money market hedge .
- ii) Calculate the effective forward rate would this represent.

[7 marks]

CLO3  
C2

- b) Butterfly Ltd , a UK company, bought goods from Malaysia which cost RM 500,000. The goods are re-sold in UK for £ 120,000. At the time of the import purchase the exchange rate for RM against sterling is RM 5.4858 – RM 5.8422 per £ 1.

- i) Calculate the expected profit on the re-sale.
- ii) Calculate the actual profit be if the spot rate at the time when the currency is received has moved to RM 4.0500 – RM 4.0950.

Ignore bank commission charges.

[6 marks]

CLO3  
C3

- c) Briefly explain **FOUR(4)** methods of foreign currency risk management .

[12 marks]

**END OF QUESTIONS**