Private & Confidential

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

Student ID (in Words) : ______________________________

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Course Code & Name : **FIN5104 Applied Corporate Finance and Economics**
Semester & Year : May - August 2023
Lecturer/Examiner : Associate Professor Dr. Akram Al-Khaled
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**
   PART A (50 marks) : Answer all TWO (2) case study questions. Answers are to be written in the Answer Booklet provided.
   PART B (50 marks) : Answer all THREE (3) structured-type questions. Answers are to be written in the Answer Booklet provided.
2. **Candidates are not allowed to bring any unauthorised materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.**

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 4 (Including the cover page)

PART A **: CASE STUDY (50 MARKS)**

INSTRUCTION(S) **:** Answer **ALL TWO (2)** questions. Write your answers in the Answer Booklet provided.

Case Study: CAPITAL BUDGETING: EVALUATING CASH FLOWS

Shenhua Group Corporation Limited is a holding company that owns China Shenhua Energy. China Shenhua Energy is one of the world's biggest coal producers and the largest coal mining state-owned enterprise in China. Its main business is coal mining and producing, railway and port transportation of its coal as well as power generation. It takes up to 10 years to acquire property, obtain the necessary permits, design the plant, arrange the financing, and complete the construction of a large generating plant.

Moreover, utilities like China Shenhua Energy are required by law to have electricity available when it is demanded-when people turn on the switch, the utility must have the energy its customers expect or suffer severe fines and other penalties. Thus, China Shenhua must have the energy its customers expect or suffer severe fines and penalties. Also, for China Shenhua's coal business, demand is cyclical. In an economic recession demand for raw materials like coal falls and China Shenhua would suffer from falling coal prices as well. If China Shenhua had invested heavily in mines and had an oversupply during the recession, it would not bode well for company.

Making a 10-year forecast is always difficult, but the 2008-2009 recession increased this difficulty tremendously. India and China, two very large sources of demand for China Shenhua Energy's products cut back on coal consumption during the financial crisis. As many businesses in Mainland China reduced production during this time, demand for power also went down. No one could know when these two industries, power generation and coal would recover. Hence, no one could accurately forecast world demand for coal and local demand for power or thus, the need for new generation capacity.

In the aftermath of the massive earthquake in Japan in 2011, several nuclear reactors risked a nuclear meltdown. The event highlights the high risk of the use of nuclear energy leading governments around the world to put on hold their future plants to deploy nuclear energy. This results in the increase in demand for coal and energy source.

The China Shenhua Energy story is typical, and it illustrates that capital budgeting is critically important booth to companies and to the economy. The principles set forth will help you make the right choices regarding which projects to accept and which to reject for the two recent proposals: Project ALPHA and Project BETA. All figures are presented in thousands of US dollars:

Table 1: Capital Budgeting Decision for Project Alpha and Project Beta.

Cash Flow	Project Alpha	Project Beta
Weighted Average Cost of Capital (WACC) = 10%		
Investment	- 10,000 USD	- 10,000 USD
Cash flow year 1	3,000	5,000
Cash flow year 2	4,000	5,000
Cash flow year 3	5,000	5,000
Cash flow year 4	6,000	5,000

Source: Adapted and modified from Eugene F. Brigham and Michael C. Ehrhardt (2019), Financial Management: Theory and Practice. (16th ed). Cengage Learning.

Question 1

Calculate the capital budgeting for Project Alpha and Beta respectively as below:

a. Net Present Value (NPV) (6 marks)
b. Payback Period (PP) (5 marks)
c. Discount Payback Period (DPP) (5 marks)
d. Internal Rate of Return (IRR) (6 marks)
e. Modified Internal Rate of Return (MIRR) (5 marks)
f. Profitability Index (PI) (3 marks)

(Total: 30 marks)

Question 2

Based on your answer in Question 1, propose to the management team whether to accept or reject the two projects. Propose your recommendation with justification.

(20 marks)

End of Part A

PART B : STRUCTURED-TYPE QUESTIONS (50 MARKS)

INSTRUCTION(S) : Answer **ALL THREE (3)** questions. Write your answers in the Answer Booklet provided.

Question 1

a) The Capital Asset Pricing Model (CAPM) is a model that describes the relationship between the expected return and risk of investing in a security. Elaborate **FOUR (4)** limitations of CAPM.

(16 marks)

b) Examine **THREE (3)** crucial decisions that the financial management team is concerned with and how these decisions affect the firm's statement of financial position.

(9 marks)

(Total: 25 marks)

Question 2

Dividend policy determines the ratio between the earnings distributed to shareholders and the earnings retained in the company. All public listed companies declare dividends at the end of their fiscal year. Hence, a dividend policy is the policy as the company implements to structure its dividend payout to their shareholders.

a) Critically debate why an ex-dividend date is a required step in the dividend payout process.

(5 marks)

b) Assess the impact of a personal tax on the dividend policy.

(5 marks)

(Total: 10 marks)

Question 3

Bonds are debt contracts that require the borrower to pay specified interest to the lender. The value of the bond is the price an investor would pay to another to purchase the bond. Bond valuation includes calculating the present value of a bond's future interest payments. Evaluate **FIVE (5)** factors that influence the bond evaluation and calculation when making a strategic decision.

(15 marks)

END OF EXAM PAPER