



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Course Code & Name : **FIN2163 Equity Analysis and Valuation**  
 Trimester & Year : May – August 2018  
 Lecturer/Examiner : Khairil Bahari/Leow Hon Wei  
 Duration : 3 Hours

#### INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
  - PART A (25 marks) : Answer all THREE (3) short answer questions. Answers are to be written in the Answer Booklet provided.**
  - PART B (75 marks) : Answer all FOUR (4) structure answer questions. Answers are to be written in the Answer Booklet provided.**
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- 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.
- 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 = 3 (Including the cover page)**

**PART A : SHORT ANSWER QUESTIONS (25 MARKS)**

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

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**Question 1**

Define the following term:

(a) Capital structure (3 marks)

(b) Weighted Average Cost of Capital (WACC) (3 marks)

**[Total: 6 marks]**

**Question 2**

Explain **THREE (3)** ways that the firm can increase its stock price through dividend.

(12 marks)

**[Total: 12 marks]**

**Question 3**

Explain on how a company makes dividend payment if there is no profit.

(7 marks)

**[Total: 7 marks]**

**[Total: 25 marks]**

**END OF PART A**

**PART B : STRUCTURE QUESTIONS (75 MARKS)**

**INSTRUCTION(S)** : Answer all **FOUR (4)** questions. Write your answers in the Answer booklet(s) provided.

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**Question 1**

In equity valuation, if a stock is not in equilibrium, explain how financial markets adjust to bring it into equilibrium.

(15 marks)

**[Total: 15 marks]**

**Question 2**

Suppose ABC Limited has debt with a market value of 12 billion, and ordinary equity with a market value of \$49 billion and a book value of \$30 billion. Which weights should ABC use in calculating weighted average cost of capital (WACC)? Explain your answer.

(15 marks)

**[Total: 15 marks]**

**Question 3**

XYZ Limited is a regulated utility company that services the New York City area. Suppose the company plans to pay \$2.36 per share in dividends in the coming year. If its equity cost of capital is 7.5% and dividends are expected to grow by 1.5% per year in the future, estimate the value of XYZ's stock price. Explain your answer.

(15 marks)

**[Total: 15 marks]**

**Question 4**

(a) Why a company should use a project's free cash flows when determining a project's net present value?

(15 marks)

(b) In equity valuation, provide **FOUR (4)** factors that affect a company to pay the dividend.

(15 marks)

**[Total: 30 marks]**

**[Total: 75 marks]**

**END OF EXAM PAPER**