



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

Course Code & Name : **FIN5104_Applied Corporate Finance and Economics**
 Trimester & Year : May – August 2018
 Lecturer/Examiner : Leow Hon Wei
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
 PART A (60 marks) : Answer all TWO (2) structure answer questions. Answers are to be written in the Answer Booklet provided.
 PART B (40 marks) : Answer all TWO (2) 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 = 4 (Including the cover page)

PART A**INSTRUCTION(S)****: CASE STUDY (60 MARKS)**

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

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 an 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.

To explain China Shenhua Energy capital budgeting techniques, management has decided to present the cash flows from three recent proposals: the Coal Mining Project A, Coal Mining Project B and Coal Mining Project C. All figures are in thousands of dollars:

Cash Flow	Coal Mining Project A	Coal Mining Project B
Weighted Average Cost of Capital (WACC) = 10%		
Investment	-\$10,000	-\$10,000
Cash flow year 1	2,000	4,000
Cash flow year 2	3,000	4,500
Cash flow year 3	4,000	4,000
Cash flow year 4	5,000	3,500

Sources: Adapted and modified from Koh, Ang, Brigham and Ehrhardt (2014), Financial Management: Theory and Practice, Cengage Learning.

Question 1

“.....management has decided to present the cash flows from three recent proposals... ..”.
Evaluate the

- a) net present value (NPV), (5 marks)
- b) payback period (PP), (5 marks)
- c) discount payback period, (5 marks)
- d) internal rate of return (IRR), (5 marks)
- e) modified internal rate of return (MIRR) and (5 marks)
- f) profitability index (PI) (5 marks)

[Total = 30 marks]

Question 2

Propose your recommendations to the management to accept or reject the new project on each valuation of the

- a) net present value (NPV), (5 marks)
- b) payback period (PP), (5 marks)
- c) discount payback period, (5 marks)
- d) internal rate of return (IRR), (5 marks)
- e) modified internal rate of return (MIRR) and (5 marks)
- f) profitability index (PI) (5 marks)

[Total = 30 marks]

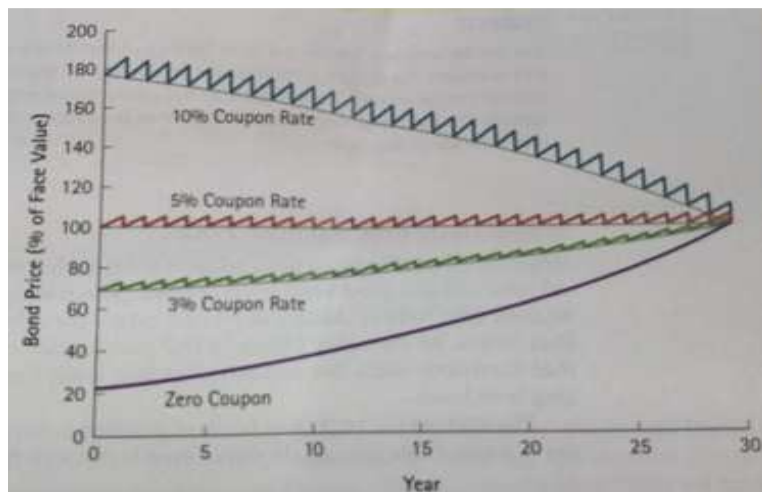
END OF PART A

PART B : STRUCTURE QUESTIONS (40 MARKS)

INSTRUCTION(S) : Answer all **TWO (2)** questions. Write your answers in the Answer booklet(s) provided.

Question 1

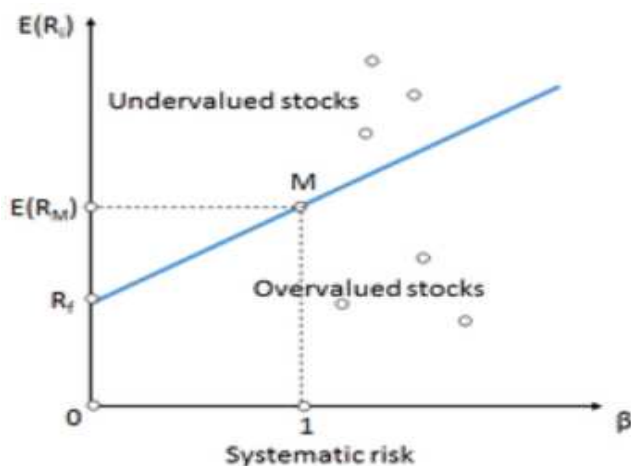
In general, financial managers are allowed to finance the potential projects through issuance of bond. It is important to identify the suitable bond price that sell to the investors. Justify the decision making on the relationship between bond prices and year from the below graph.



[Total = 20 marks]

Question 2

Justify the decision making on the security market line in the respect of the relationship between risk and return for assets as the below graph.



[Total = 20 marks]

END OF EXAM PAPER