NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY FACULTY OF COMMERCE DEPARTMENT OF FINANCE BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE PART IV 2ND SEMESTER SUPPLEMENTARY EXAMINATION – AUGUST 2011 <u>CORPORATE FINANCIAL STRATEGY & RESTRUCTURING [CFI 4201]</u> TIME ALLOWED : 3 HOURS

Instructions

- 1. The paper is 3 hours
- 2. Answer any four questions
- 3. Electronic calculators may be used.
- 4. All workings to be shown.
- 5. Write legibly.

Question 1 [25 marks]

- 1.1 The value of a firm is independent of the dividend decision. Prove this statement in the context of MM article of 1951, highlighting the critical assumptions made. [17 marks]
- 1.2 Discuss two other theories on dividend policy that you have come across in your studies. [8 marks]

Question 2 [25 marks]

MNO Limited is considering diversifying into the hospitality industry. The industry has an average equity beta of 1.5, an average Debt equity ratio of 20% and an average marginal rate of corporate tax of 35%.

The project is expected to cost \$400 million and generate after tax real asset cashflows of \$100 million per year in years 1 to 5 and \$120m per year thereafter fro the foreseeable future. In addition, the project is expected to generate additional Debt capacity, which will be fully utilized, resulting in Project Debt/Equity ratio of 25%.

2.1 Assuming the riskfree rate of return and the market risk premium are 20% and 10% respectively, should the project be undertaken.

[17 marks]

2.2 State the critical assumptions of the models that you have used in "2.1" above. [8 marks]

Question 3 [25 marks]

- 3.1 Explain the seven drivers of shareholders value. [15 marks]
- 3.2 What are the limitations of earnings per share growth as a measure of executive performance? [10 marks]

Question 4 [25 marks]

Discuss Corporate Financial Strategy within the Boston Consulting Group [BCG] matrix.

Question 5 [25 marks]

Examine four valid reasons and three non-valid reasons of mergers and acquisitions from the perspective of shareholders. [25 marks]

Question 6 [25 marks]

What are the problems that could be encountered in structuring management buyouts? Suggest strategies that could be employed to address these problems. [25 marks]