National University of Science and Technology
Think in Other Terms

FACULTY OF COMMERCE

DEPARTMENT OF FINANCE

MASTER OF SCIENCE IN FINANCE AND INVESTMENT& MASTER OF SCIENCE IN FINANCIAL ENGENEERING

PART 1 SUPPLIMENTARY EXAMINATION–JULY 2015

ADVANCED CORPORATE FINANCIAL STRATERGY [CFI 5102]

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer any **Four (4)** Questions
2. Write neatly and legibly.

INFORMATION TO CANDIDATES

1. This paper contains **FIVE (5)** Questions.
2. Questions carry a total of **25 marks** each.
3. This paper contains **THREE (3)** printed pages.
4. The businesses and persons in this question paper are intended to be fictitious.

ADDITIONAL MATERIAL

Standard Normal Distribution Tables

QUESTION ONE

Using the Product Life Cycle Model in conjunction with the BCG Matrix, explain the changes to the dividend policy and capital structure composition as a company goes through the cycle. **[25 mark]**

QUESTION TWO

a) "Most mergers are doomed from the beginning .Anyone who has researched merger success rates knows that roughly70% of mergers fail", (McLetchie and West, 2010).Evaluate the statement above and discuss measures that can be put in place to reduce failure of mergers. **[5,10 marks]**

b) A telecommunications company based in Zimbabwe is considering investing in a project to introduce conference calls for prepaid network users .The company has a 12-year patent on the product and he initial cost of the project is $2.875 billion with a present value of expected cash flow totalling $3.422 billion. The project variance is 0.224.Calculate;

   i. The value of the option to delay. **[7 marks]**

   ii. The project time premium. **[3 marks]**

[Total 25 marks]

QUESTION THREE

a) Evaluate three ways that can be used by companies in Zimbabwe's telecommunications sector to raise capital in a liquidity constrained environment. **[16 marks]**

b) Describe the impact of methods identified in a) above on the objective of maximising shareholder value**.** **[9 marks]**

[Total 25 marks]

QUESTION FOUR

a) Suppose ,a company has a target debt –equity of 1:1,and target payout ratio of 40%.The company wants to achieve a growth rate of 20% per annum .The company is expecting before tax return on assets of 21%.Its sales-to –assets ratio 1.8 times .The current interest rate is 12%,and corporate tax rate is

35%.Determine the ability of the company to sustain its intended growth rate ,hence recommend the strategies (if any) that should be adopted to achieve the growth rate. **[7;4 marks]**

b) Examine the importance of operating and financial leverage in strategy making. **[4, 4 marks]**

c) Justify differences in company capital structure across countries and industries. **[3; 3 marks]**

[Total 25 marks]

QUESTION FIVE

a) An investor is considering the purchase of a common stock with a $2.00 annual dividend. The dividend is expected to grow at a rate of 4% annually. If the investor's required rate of return is 7%, calculate the intrinsic value of the share. **[4 marks]**

b) Why is sensitivity analysis important financial strategy making? **[4 marks]**

c) Evaluate why corporate managers are concerned about dividend stability. **[8 marks]**

d) Oasis Clothing is a manufacturing company based in Bulawayo's Belmont Industry. It specialises in manufacturing of a variety of clothing for men. Recently Oasis invested $200, 000 in the business in order to increase production and profitability. Their return on investment is 10% and their average cost of acquiring funds is 7%.Calculate Oasis's Economic Value Added. **[3 marks]**

e) Explain two strategies that can be adopted by Oasis to increase its Economic Value Added. **[6 marks]**

[Total 25 marks]

END OF EXAMINATION PAPER