



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SCHOOL OF BUSINESS & ECONOMICS

BACHELOR OF COMMERCE

COURSE CODE: BCM 3116

COURSE TITLE: ASSET VALUATION & MANAGEMENT.

DATE: 1ST APRIL, 2022

TIME: 0830-1030

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 4 printed pages. Please turn over

QUESTION ONE

- a. Evaluate four elements that the financial analyst should consider when performing an industry analysis of a given company. **(8 Marks)**
- b. The dividends for Joel and Joel Limited (JLL) is expected to grow at the rate of 30% for the next five years. After that, competition is expected to lower JLL's dividend growth rate to a constant growth rate of 7% per annum indefinitely. The market risk premium is 6% and the risk free rate is 5%. JLL's beta is 1.5 and the company just paid a dividend of sh. 2.50. Determine the current value of JLL's share. **(10 Marks)**
- c. Summarise five differences between the fundamental analysis and the technical analysis. **(5 Marks)**
- d. Discuss two challenges that market regulation seeks to address in financial markets. **(2 Marks)**

QUESTION TWO

- a. Sizzy Inc. currently has an EPS of sh. 4 and an earnings growth rate of 6 percent. If the benchmark PE ratio is 19, what do you believe is an appropriate price for this stock. **(6 Marks)**
- b. Based on (a) above, what is the target share price 4 years from now. **(3 Marks)**
- c. Using specific examples, discuss two types of portfolio management strategies. **(6 Marks)**

QUESTION THREE

- a. Discuss two strengths of the two stage dividend discount model (DDM) compared to the constant growth dividend discount model. **(4 Marks)**

b. Charingo Limited wishes to expand its business. The company is considering to issue sh. 50 million worth of redeemable bonds denominated in sh. 1000. The bond's rate of interest is 10% and will mature on 30 June 2032. The bonds will be issued on 1 July 2022. The cost of capital is 18% per annum for the whole period. Required;

i. The current value of the bond. **(7 Marks)**

ii. The par value of the bond. **(4 Marks)**

QUESTION FOUR

a. Explain any three applications of equity valuation. **(6 Marks)**

b. The shares of Stylen Limited are currently selling at sh. 62 each at the PASE securities exchange market. The exercise price for a fourty days call option is sh. 60 and a prevailing risk free rate of 4percent. The volatility of Stylen Ltd share price has been 32%. Determine the value of the call option. **(9 Marks)**

$$\text{Hint; } VC = S * N(d_1) - Xe^{(-rfT)} * N(d_2)$$

$$d_1 = \frac{\ln(S/X) + (rf + 0.5\sigma^2)T}{\sigma\sqrt{T}}$$

$$\sigma\sqrt{T}$$

$$d_2 = d_1 - \sigma\sqrt{T}$$

QUESTION FIVE

a. Explain the following terms as applied in equity investment evaluation:

i. Going concern value. **(2 Marks)**

ii. Fair market value. **(2 Marks)**

b. Alex Ogina is considering valuing ZAD Ltd. Using the H-Model approach. The relevant inputs for valuation are as follows:

- i. Current dividend per share is sh. 1
- ii. The dividend growth rate is 29.28% declining linearly over a 16-year period to a final and perpetual growth rate of 7.26%.
- iii. The risk-free rate is 5.34%.
- iv. The market risk premium is 5.32%.
- v. The beta estimate is 1.37.

Required;

- i. The required rate of return for the company. **(3 Marks)**
- ii. The per share value estimate of the company using the H-model. **(8 Marks)**

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