



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 313
COURSE TITLE: ASSET VALUATION AND
MANAGEMENT**

DATE: 16TH APRIL 2018

TIME: 11.00AM - 1.00 PM

INSTRUCTIONS TO CANDIDATES

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

This paper consists of 4 printed pages. Please turn over.

QUESTION ONE

a. Giving specific examples differentiate between UNIQUE risk and MARKET risk and explain how each risk can be reduced. **(6mks)**

b. You are given a bond with the following features:

- i. Face value = \$1,100
- ii. Coupon rate = 12%
- iii. Market value = \$1,600
- iv. Maturity period = 30 years

You are required to determine the following;

- i. Nominal Yield **(2mks)**
- ii. Current Yield **(2mks)**
- iii. Yield to Maturity **(3mks)**

c. Mevid Ltd is a company listed in the NSE and as a result of good economic environment it has been paying dividends to its shareholders. The dividend per share of Mevid Limited as at 31 March 2016 was Sh.5.00. The company's financial analyst has predicted that dividends would continue growing at the rate of 6% for the next five years after which growth would fall to a constant rate of 4%. The analyst has also projected a required rate of return of 14% for the equity market. Mevid's shares have a similar risk to the typical equity market. You are required to determine the value of shares of Mevid Ltd as at 31 March 2016. (12mks)

QUESTION TWO

Performance of a company depends on the performance of the economy and as such investors are concerned with those variables in the economy which affect performance of companies in which they intend to invest. Discuss **(15mks)**

QUESTION THREE

The shares of Mimbo Ltd are currently selling at sh 310 each at the Nairobi securities exchange market. The exercise price for a six month call option is sh 256 and a prevailing risk free rate of 10% p.a. The variance of Mimbo Ltd share price has been 14%. Determine the value of the call option. **(15mks)**

$$\text{Hint; } VC = S * N(d_1) - X e^{(-rT)} * N(d_2)$$

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

$$\sigma\sqrt{T}$$

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

QUESTION FOUR

The investment manager of Sama Company has approached you with this information relating to different investment projects and the states of economy.

	Project A		Project B		Project C	
State	Profit (shs)	Probability	Profit (shs)	probability	Profit (shs)	Probability
Recession	2000	0.3	5000	0.4	4000	0.5
Stable	4000	0.5	4000	0.4	3000	0.3
Expansion	5500	0.2	1800	0.2	2000	0.2

He requests for your professional advice on how he should be able to rank these projects and make an investment decision. Assist him to make this decision and choose the best project. **(15mks)**

QUESTION FIVE

- a. Mills Company bond which currently sells for sh. 1260, has a 10% coupon rate and sh. 1080 par value, pays interest annually and has 12 years to maturity. Find the approximate yield to maturity **(8mks)**
- b. A 12%, 7 year bond of sh. 1000 is currently selling at sh. 1050 in the market. An investor expects to hold this bond for 3 years and then sell it off at sh. 1520. Determine the approximate realized yield **(7mks)**

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