

KARACHI UNIVERSITY BUSINESS SCHOOL
University of Karachi
FINAL EXAMINATION, DECEMBER 2010: AFFILIATED COLLEGES
SECURITY ANALYSIS BA (H) – 603
BS – VII

Date: January 14, 2011

Max Time: 2.5 Hrs

Max Marks: 40

Instruction: Answer any 04 Questions. All Questions have equal Marks

Q # 01 Company Analysis

ABC Limited has 500,000 outstanding ordinary shares of Rs. 100/= each presently selling at Rs. 140. During the current year it earned a net profit of Rs. 50 million and declared a cash dividend of 20% and bonus shares of 30%. ABC limited has general reserve of Rs. 30 million and discount on shares of Rs. 5 million on its balance sheet. Bonds of Rs 14 million are convertible at market price

Required:

(a) Calculate the following:

- | | |
|---|---|
| (1) Earning per share (Diluted) | (2) Dividend per share |
| (3) Dividend pay out ratio | (4) Nominal yield |
| (5) Current yield | (6) Price earnings ratio |
| (7) Owners equity after declaring dividends | (8) Number of bonus shares to be issued |
| (9) Book value per share | (10) Market to book ratio |

(b) Based on above relevant ratios, write a concise report for an investor who desires to buy shares of ABC limited.

Q # 02 Bond Pricing

A corporate investor intend to invest Rs 100 million in a particular bond provided it gives a return of 12%. Salient features of the bond are given below.

| | |
|----------------------------|-------------|
| Current market price | Rs. 9,000 |
| Face Value | Rs. 10,000 |
| Coupon Rate | 10% |
| Interest Payment | Half yearly |
| Original life | 5 Years |
| Years to Maturity | 2 Years |

Required

1. What will be the maturity value of the bond.
2. Prepare a cash flow of the bond for the investor.
3. Calculate maximum price of one bond you will recommend to the investor by using cash flow.
4. Verify your result by calculating price by annuity method.
5. Calculate current yield at current market price and recommended price.
6. What other factors should be considered before taking investment decision.

KARACHI UNIVERSITY BUSINESS SCHOOL
University of Karachi
FINAL EXAMINATION, JUNE 2010: AFFILIATED COLLEGES
SECURITY ANALYSIS: BA (H) – 603
BS – VII

Date: July 2, 2010

Max Time: 2 Hrs

Max Marks: 60

Attempt any 3 questions. All questions carry equal marks

Q # 1

- (a) List and discuss the three forms of the efficient market hypothesis.
- (b) Discuss the role of a portfolio manager in a perfectly efficient market

Q. # 2

- (a) How does the cross-sectional variation in common stock returns relate to the issue of stock selection?
- (b) What are the major sources of information used by security analyst in evaluating common stocks.

Q # 3.

- (a) Given a preferred stock with annual dividend of Rs3 per share and a price of Rs40 what is the required rate of return?
- (b) Assume now that interest rates rise, leading investors to demand a required a rate of return of 9 percent. What will the new price of this preferred stock be?

Q # 4.

- (a) Why, under the CAMP, do all investors hold identical risky portfolios?
- (b) Why does the CML contain only efficient portfolios?

Q # 5.

- (a) How many portfolios are on an efficient frontier? What is the Markowitz efficient set?
- (b) Why do rational investors seek efficient portfolios?

Q # 6.

- (a) Assume that R_F is 7 percent, the estimated return on the market is 12 percent, and the standard deviation of the market's expected return is 21 percent. Calculate the expected return and risk (standard deviation) for the following portfolios:
 1. 60 Percent of investable wealth in riskless assets, 40 percent in the market portfolio.
 2. 150 Percent of investable wealth in the market portfolio
 3. 100 percent of investable wealth in the market portfolio.
- (b) What is an investment company? Distinguish between an open-end and a closed-end company.