College Name: _____

Student Name: _____ Father's Name: _____

Copy No: _____

KARACHI UNIVERSITY BUSINESS SCHOOL
UNIVERSITY OF KARACHI
FINAL EXAMINATION JUNE 2017; AFFILIATED COLLEGES
FINANCIAL MANAGEMENT; BA (H)–551 (PART B)
BBA – V

Date: July 13, 2017 **Max. Time: 100 Mins**
Max. Marks: 40

INSTRUCTIONS:

1. **Attempt any 4 questions. Do not write anything on the question paper, EXCEPT the initials mentioned above.**
2. **Mobile phones or any other communicating device will not be allowed in the examination room. Students will have to remove the batteries of these devices before entering the examination hall.**

Q1 Given the following returns on Stock Q and "the market" during the last three years, what is the difference in the calculated beta coefficient of Stock Q when Year 1 and Year 2 data are used as compared to Year 2 and Year 3 data?

Year	Stock Q	Market
1	6.30%	6.10%
2	–3.70	12.90
3	21.71	16.20

Q2 Fish & Chips Inc. has two bond issues outstanding, and both sell for $701.22. The first issue has an annual coupon rate of 8 percent and 20 years to maturity. The second has an identical yield to maturity as the first bond, but only 5 years until maturity. Both issues pay interest annually. What is the annual interest payment on the second issue?

Q3 Rollins Corporation is estimating its WACC. Its target capital structure is 20 percent debt, 20 percent preferred stock, and 60 percent common equity. Its bonds have a 12 percent coupon, paid semiannually, a current maturity of 20 years, and sell for $1,000. The firm could sell, at par, $100 preferred stock which pays a 12 percent annual dividend, but flotation costs of 5 percent would be incurred. Rollins' beta is 1.2, the risk–free rate is 10 percent, and the market risk premium is 5 percent. Rollins is a constant–growth firm which just paid a dividend of $2.00, sells for $27.00 per share, and has a growth rate of 8 percent. The firm's policy is to use a risk premium of 4 percentage points when using the bond–yield–plus–risk–premium method to find r_s. The firm's marginal tax rate is 40 percent.
Calculate WACC.

Q4 Flavortech Inc. expects EBIT of $2,000,000 for the current year. The firm's capital structure consists of 40 percent debt and 60 percent equity, and its marginal tax rate is 40 percent. The cost of equity is 14 percent, and the company pays a 10 percent rate on its $5,000,000 of long–term debt. One million shares of common stock are outstanding. For the next year, the firm expects to fund one large positive NPV project costing $1,200,000, and it will fund this project in accordance with its target capital structure. If the firm follows a residual distribution policy (with all distributions in the form of dividends) and has no other projects, what is its expected dividend payout ratio?

Q5 Stewart Industries expects to pay a $3.00 per share dividend on its common stock at the end of the year (D_1 = $3.00). The dividend is expected to grow 25 percent a year until t = 3, after which time the dividend is expected to grow at a constant rate of 5 percent a year (i.e., D_3 = $4.6875 and D_4 = $4.9219). The stock's beta is 1.2, the risk–free rate of interest is 6 percent, and the rate of return on the market is 11 percent. What is the company's current stock price?

Q6 Casey Motors recently reported the following information:
Net income = $600,000.
Tax rate = 40%.
Interest expense = $200,000.
Operating capital = $9 million.
After–tax cost of capital = 10%.

What is the company's Economic Value Added?

END OF SUBJECTIVE PAPER