The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN FINANCE (B.SC FIN YR III SEM I)

UNIT CODE: CMFI 2303

UNIT TITLE: EQUITY ANALYSIS AND VALUATION

DATE: 5TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Describe the main present value models in the valuation of securities (6 marks)

(b) A company has an expected dividend payout of 50 percent, a required rate of return of 18 percent, and an expected dividend growth rate of 3 percent

Required:

Compute the firm's price to earnings ratio (PIE) (6 marks)

(c) Describe FOUR merits of equity financing as compared to other sources of finance (6 marks)

(d) Distinguish between technical theory and fundamental theory of equity valuation (6 marks)

(e) Explain the relationship between market price per share and dividend price per share in valuation of equity (6 marks)

QUESTION TWO

(a) Explain what happens to an equity's stock intrinsic value if it is greater than its market value in practice (8 marks)

(b) Given; Market price of a share of shs 10 is shs 50, the profits available for equity shareholders are shs 200,000 and number of equity shares is 50,000

Required:

i. Compute EPS

ii. Earning yield ratio (12 marks)

QUESTION THREE

(a) Distinguish the following models of equity valuation

i. Asset-based valuation model and multiplier model (8 marks)

(b) Walter's approach and Gordon approach in dividend policy valuation (6 marks)

(c) Regular dividend policy and stable dividend policy (6 marks)

QUESTION FOUR

(a) Describe the main features of scrip dividend and stock dividend (8 marks)

(b) Imagine that a firm has an expected dividend payout ratio of 20% and the required rate of return 9% and expected dividend growth of 5%

Required:

Compute the firm's estimated price to earnings (P/E) ratio (12 marks)

QUESTION FIVE

(a) Explain the concept of composite cost of capital (8 marks)

(b) A company issues 1000 10% preference shares 10 each at discount of 5% costs of raising capital are shs 2,000

Required: Compute the cost preference capital (8 marks)

(c) Describe reasons entities will have irregular dividend policy (4 marks)