UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

MAIN EXAMINATION PAPER OCTOBER 2021

PROGRAMME	:	**BACHELOR OF COMMERCE**
TITLE OF PAPER	:	**ADVANCED BUSINESS FINANCE**
COURSE CODE	:	**ACF 418 / AC/428/ AC 513**
TOTAL MARKS	:	**100 MARKS**
EXAM PERIOD	:	**OCTOBER, 2021**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS:

1. There are four (4) questions, ANSWER ALL.
2. Begin the answer to each question on a new page.
3. Show all necessary calculations.
4. The marks awarded for a question are indicated at the beginning of each question.

Note: You are reminded that in marking your script, account will be taken of the accuracy of calculations and the clarity of presentation of your answers.

THIS PAPER MUST NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: SCIENTIFIC/FINANCIAL CALCULATOR

Question 1 (20 marks)

(i) Capital market efficiency refers to the degree to which security prices accurately reflect current information in the market place. Elucidate the three forms of capital market efficiency. **(6 marks)**

(ii) Discuss the implications of capital market efficiency for financial managers. **(8 marks)**

(iii) More often than not, the qualitative attributes of a lease contract end up creating more serious problems in future than its overt costs. Unfortunately, these qualitative attributes are often grossly under-emphasized in the evaluation process. From a lessee's perspective, discuss any three of the qualitative factors to be considered in evaluating a lease proposal. **(6 marks)**

Question 2 (20 marks)

Igbojiakuru Pty has E250,000,000 with two investment options: (a) invest in Eswatini money market at 11% interest rate per annum; (b) invest in US money market for 270days at 9% interest rate per annum. The E/$ spot exchange rate is E16.400/$.

You are required to:

i) Calculate the 270-day lilangeni/dollar (*E*/$) forward exchange rate and comment on your answer. **(5 marks)**.

ii) Determine whether there is arbitrage profit/loss or interest rate parity from the two investments. **(15 marks)**

Question 3 (25 marks)

Royal Swazi Sugar Company (RSSC) has 50,000,000 shares in issue, which are currently trading at a market price of 1520 cents each. The RSSC is intending to acquire of Eswatini Sugar Farm (ESF), which has 30,000,000 shares in issue, trading at a market price of 840 cents each.

ESF's net cash flow after tax in the year just ended was *E4*,000,000. RSSC expects that managerial and other synergies arising out of the acquisition would result in ESF's after tax net cash flow increasing by 5% per year in the first 3 years after acquisition, and thereafter by an average rate of 2% per year for the foreseeable future.

The acquisition will involve transaction costs of *E1*4,500,000, which includes professional fees for acquisition planning and post- acquisition integration services.

The appropriate discount rate for evaluating cash flows of ESF for the acquisition is estimated at 13%.

You are required to:

(i) Estimate the post-acquisition value of ESF, and determine the financial benefit of acquiring ESF. **(15 marks)**

(ii) If the acquisition transaction costs and the market price of ESF share change to E4,500,000 ESF 500 cents respectively, what would the financial benefit of acquiring ESF be? **(5 marks)**

(iii) Comment on the financial benefit(s) that is expected to arise as a result of the acquisition of ESF in the two cases. **(5 marks)**

Question 4 (35 marks)

Automotive Battery Ltd (ABL), a US-based multinational conglomerate, is considering establishing a regional plant in Eswatini to manufacture electric car batteries. The project would require an initial investment of *E*95 million, which includes funds to support working capital. The existing spot rate is $0.073 per Lilangeni.

The estimated price per battery for the next 3years are *E*18750, *E*19000, and *E*19500; and the demand schedules during each of the next 3 years are 22,500 unit, 26,600, and 28,500 respectively.

The variable costs (for materials, labour, etc.) per battery have been estimated and consolidated for the next 3years as *E*15000, *E*16250, and *E*16500 respectively. The expense of leasing extra office space is *E*22 million per year. Other annual overhead expenses are expected to be *E*22 million per year.

The Eswatini government will impose a 27.5% corporate tax rate on income. In addition, it will impose a 10% withholding tax on any fund remitted by the subsidiary to the ABL Ltd.

The ABL subsidiary in Eswatini plans to send all net cash inflows back to the ABL Ltd in US at the end of each year.

The 3years projected forward exchange rates of the US dollar per lilangeni are $.073, $0.076, and $0.079, respectively.

The Eswatini government will pay ABL Ltd USA *E*25,000,000 million to acquire the plant at the end of the 3 years. Assume that there is no capital gains tax on the sale of the subsidiary.

ABL Ltd requires a 13 percent return on this project.

You are required to:

i) Use NPV technique to determine whether ABL Ltd should embark on this project? **(20 marks)**

ii) If the variable costs per unit for the next 3 years change to *E*12000, *E*13625, and *E*13500 respectively, and the salvage value changes *E*31,000,000, would your decision remain the same? **(15 marks)**

END OF PAPER