MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SCHOOL OF BUSINESS & ECONOMICS

BACHELOR OF COMMERCE

COURSE CODE: BCM 3116

COURSE TITLE: ASSET VALUATION AND MANAGEMENT.

DATE: 7/12/2023 **TIME: 1100-1300 HRS**

INSTRUCTIONS TO CANDIDATES

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

This paper consists of 4 printed pages. Please turn over

QUESTION ONE

a. The following information was extracted from the financial statements of Kenland Ltd.

    Earnings per share (EPS) Sh.20
    Payout ratio 60%
    Internal rate of return (IRR) 16%
    Capitalisation rate 12%

   Determine the intrinsic value of a share under Gordon's model. **(6 Marks)**

b. Explain the five steps involved in equity valuation. **(8 Marks)**

c. In a research note on the ordinary shares of Rivet Fashion Group (RFG) dated early July 2022, when the share price was Sh. 700 and projected annual dividend was Sh. 50, an analyst stated a target price of Sh. 920. The research note did not explain how the target price was obtained or how it should be interpreted. Assume that the target price represents the expected price of RFG. Describe any further information that you would need to form an opinion on whether RFG was fairly valued or undervalued. **(6 Marks)**

QUESTION TWO

Tryson Limited's share is currently trading at Sh. 472. The company's beta is 0.83. The current dividend per share is Sh. 13.80, the risk free rate is 4.66% and the equity risk premium is 4.92%. Christopher Koech, an equity analyst for the company projects that the dividends will initially grow at a rate of 14% and then decline linearly to 5% over a 10 year period. Thereafter, the dividends are expected to grow at a rate of 5% per annum.

Required;

i. The value of Tryson Limited's dividend cash flow streams using the H-Model. **(6 Marks)**

ii. Explain whether the shares of Tryson Limited are correctly priced based on your answer in (i) above. **(4 Marks)**

iii. The expected rate of return assuming that the investor decides to pay the current price of Sh. 472 per share and that the company adopts the H- Model in its valuation. **(5 Marks)**

QUESTION THREE

a. Discuss the t**hree** types of asset valuation models. **(6 Marks)**

b. Explain the following theories in relation to valuation of financial assets:

i. Fundamental theory **(3 Marks)**

ii. Efficient Hypothesis theory **(3 Marks)**

iii. Technical theory **(3 Marks)**

QUESTION FOUR

a. Discuss **two** strengths of the two stage Dividend Discount Model (DDM) compared to the constant growth dividend discount model. **(5 Marks)**

b. You are analysing three bonds; A, B and C each with a face value of sh. 10,000, 12% coupon rate and five years maturity. Bond A pays interest annually while bond B and C pay interest semi-annually and quarterly respectively.

Required;

i. The price for bond A, B and C assuming yield-to-maturity (YTM) is 10%, 12% and 16% respectively. **(8 Marks)**

ii. Comment on the relationship between bond price, coupon payments and the yield-to-maturity from the computations in (i) above. **(2 Marks)**

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