UNIVERSITY OF COLOMBO, SRI LANKA FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Semester VII) Examination – June/July, 2022 FIN 4239/BEC 4249 – Business Valuations

Instructions.

- This paper includes Part I on Learning Management System (LMS) with Ten (10) Multiple Choice Questions (MCQ) and Part II with 03 structured questions on three (03) pages as an online and open book examination.
- Time allowed for **part I** is 20 minutes and **Part II** is one (1) hour and 40 minutes.
- Answer all three questions in Part II.
- The use of calculators is permitted.

Part I

Ten (10) Multiple Choice Questions (MCQs) to be attempted in the Learning Management System (LMS).

(2 marks * 10 = 20 Marks)

Part II

01.

You are a team member of undergraduates working on a business valuation assignment. You are currently valuing the shares of XYZ Holding Ltd. The following information was estimated for XYZ Holding by your group members.

Year	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net	1,400	1,500	1,800	2,200	2,500	2,800	3,100	3,500	3,800	4,000
Operating										
Profit or										
Loss After										
Tax										
(NOPLAT)										
(Rs. Mn)										

The Weighted Average Cost of Capital (WACC) for the firm is 15%.

The Return on Invested Capital (ROIC) and growth rate forecasts are as follows;

	Growth	ROIC
2022-2031	6%	12%
2032 onwards	8%	15%

The mid-year adjustment forecasts in 1.5.	
Balance sheet extracts as at 31/12/2021;	
Investment in non-consolidated subsidiaries - Rs. 150 Mn	
Excess cash – Rs 0.5 Mn	
Other non-operating assets – Rs. 2500 Mn	
Long -term borrowing – Rs. 1,300 Mn	
Minority Interest (MI) – Rs. 400 Mn	
Common shares outstanding 150 Mn shares.	
Calculate;	
i. Enterprise value as at 31/12/2021	
-	23 marks)
ii. Value of equity as at 31/12/2021	
	04 marks)
iii. Value per share as at 31/12/2021	,
-	03 marks)
(Total marks 3	,
02.	,
i. Differentiate between accounting profits and economists' profits.	
	(05 marks)
ii. What do you mean by "Value spread" in economist profit calculation?	
	(03 marks)
iii. The following information is provided to you regarding ABC (Pvt) Ltd.	
(Rs. 000')	
Capital Expenditure 1, 500	
Depreciation 300	
Sales 10,000	
Change in WC 500	
If forecasted sales are Rs. 6,000, 000/=;	
a. Calculate the incremental fixed capital investment	
	(04 marks)

b. Calculate the incremental working capital investment

(03 marks)

- iv. You have just joined an investment analyst in a well reputed firm. You are assigned with a client based to provide advice on suitable investment options. Among few companies you are currently considering for valuations, a firm has a free cash flow of Rs.1,000 Mn in the current year after accounting for investments but before debt repayment. The cash flows of the firm are expected to grow at 12% for the next five years and 10% thereafter. Assume that the firm's value of debt is Rs. 500 Mn and overall cost of capital is 15%.
 - a. Calculate the value of the firm

(07 marks)

b. Calculate the value of equity.

03.

(03 marks) (Total marks 25 marks)

i. What are 'Price Multiples''? Explain with suitable examples.

ii. What is meant by "Price to Earnings Ratio"?

(04 marks)

(05 marks)

iii. Differentiate between "Trailing and Leading" Price Earnings ratios?

(04 marks)

iv. You have currently invested in shares of Chithru Ltd. Chithru Ltd's expected revenue and expected earnings before tax for 2021 are Rs. 500 Mn and Rs. 60 Mn respectively. The firm had a book value of assets worth Rs.250 Mn and book value of equity of Rs.100Mn. The interest expense in 2021 was Rs. 18 Mn.

The expected growth rate of the company is 8%. The beta value of Chithru Ltd is 1.2. The risk-free rate in the economy is 6% and the equity risk premium is 3%. The tax rate applicable is 35%.

- a. Calculate the Price to Book Value (PBV) ratio for Chithru Ltd.
- b. Estimate the market value of equity.

(06 marks)

(01 marks)

c. If there are 100 Mn shares currently outstanding and the intrinsic value per share is estimated to be Rs. 10.20, would your sell or retain the investments made in Chithru Ltd's shares? Comment.

(05 marks) (Total marks 25 marks)

Present Value Table																				
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1		0.980												0.877						
2		0.961												0.769						
3														0.675						
4			0.888											0.592						
5			0.863																	
6			0.837																	
7		0.871												0.400						
8			0.789																	
9														0.308						
10	0.905	0.820	0.744																	
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.136
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.870	0.758	0.661	0.577	0.506	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19			0.570																	
20	0.820	0.673	0.554																	
21				0.50,07.0										0.064						
22			0.522																	
23			0.507																	
24														0.043						
25			0.478																	
26			0.464																	
27			0.450																	
28			0.437																	
29			0.424																	
30		10.000	0.412																	
31	1753.70	0.541												0.017						
32 33			0.388																	
34														0.013						
35		0.55.57.57.57												0.012						
36			0.335																	
37														0.009						
38		0.7.5.1.7.5	0.335											0.008						
39			0.316																	
40			0.307																	
40	0.072	0.400	0.007	0.200	0.142	0.001	0.007	0.040	0.022	0.022	0.010	0.001	0.000	0.000	0.004	0.000	0.002	0.001	0.001	0.001