BBA in TM, 7th Sem. Date: October 11, 2023 (Afternoon) 10

ISLAMIC UNIVERSITY OF TECHNOLOGY (IUT)
ORGANISATION OF ISLAMIC COOPERATION (OIC)

DEPARTMENT OF BUSINESS AND TECHNOLOGY MANAGEMENT

Mid-Semester Examination
Course No. : BTM 4721
Course Title : Corporate Finance

Winter Semester, A. Y. 2022-2023
Time : 1.5 hours
Full Marks : 75

Answer **all 3 (three)** questions. All questions carry equal marks. Marks of each question and corresponding CO and PO are written in the right margin with brackets.

1. a) Describe the expected effect of regular cash dividends, stock dividends, share repurchases, stock splits, and reverse stock splits on shareholders' wealth. 05 (CO2) (PO1)
   b) Compare theories of dividend policy: MM theory, Bird in hand theory, Tax preference theory and explain implications of each for share value. 10 (CO2) (PO1)
   c) Explain types of information (signals) that dividend initiations, increases, decreases, and omissions may convey. 05 (CO2) (PO1)
   d) Compare the effect of a share repurchase on earnings per share when i) the repurchase is financed with the company's surplus cash and ii) the company uses debt to finance the repurchase. 05 (CO2) (PO1)

2. a) Explain the rationale for using present value models to value equity and describe the dividend discount and free-cash-flow-to equity models. 7.5 (CO2) (PO1)
   b) Identify characteristics of companies for which the constant growth or a multistage dividend discount model is appropriate. 05 (CO2) (PO1)
   c) Discuss the rationale for using price multiples to value equity and interpret the following multiples: price to earnings, price to an estimate of operating cash flow, price to sales, and price to book value; 7.5 (CO2) (PO1)
   d) A company does not currently pay a dividend but is expected to begin to do so in five years (at $t = 5$). The first dividend is expected to be $4.00 and to be received five years from today. That dividend is expected to grow at 5 percent into perpetuity. The required return is 10 percent. What is the estimated current intrinsic value? 05 (CO3) (PO5)

3. a) An analyst is attempting to value shares of the ABC Company. The company has just paid a dividend of $0.58 per share. Dividends are expected to grow by 20 percent next year and 15 percent the year after that. From the third year onward, dividends are expected to grow at 5.6 percent per year indefinitely. If the required rate of return is 9 percent, what is the intrinsic value of the ABC's Stock? 08 (CO3) (PO5)

b) An analyst has determined that the appropriate EV/EBITDA for Rainbow Company is 10.2. The analyst has also collected the following forecasted information for Rainbow Company: 05 (CO3) (PO5)

EBITDA = $22,000,000
Market value of debt = $56,000,000
Cash = $1,500,000
Calculate the value of equity for Rainbow Company.

c) An analyst has gathered the following information for the Lafi Corporation: Expected earnings per share = $5.70, Expected dividends per share = $2.70. Dividends are expected to grow at 2.75 percent per year indefinitely. The required rate of return is 8.35 percent. Based on the information provided, what is the justified price/earnings multiple of Lafi? 05 (CO3) (PO5))

d) The dividend policy of Berkshire Gardens Inc. can be represented by a gradual adjustment to a target dividend payout ratio. Last year Berkshire had earnings per share of US$3.00 and paid a dividend of US$0.60 a share. This year it estimates earnings per share will be US$4.00. Find its dividend per share for this year if it has a 25% target payout ratio and uses a five-year period to adjust its dividend. 07 (CO3) (PO5)