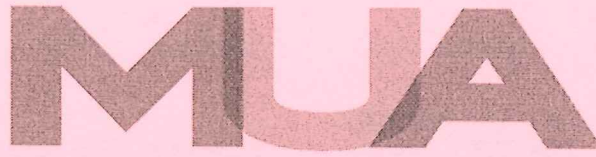


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

FIN 424: FINANCIAL ANALYSIS AND VALUATION

DATE: 31ST MARCH 2025

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

VALUATION OF SECURITIES

Virjee Vee Inc., a company that provides communication services, listed securities in the stock exchange market in April 2019. Founded in 2011 by Virjee Vee, a former executive at Vid Inc., Virjee quickly gained popularity due to its user-friendly interface and reliable video quality. By the time of its listing, Virjee had become a leading player in the video conferencing market, serving a wide range of customers from small businesses to large enterprises.

The listing was filed on 18th April 2019 with an offering price of \$36 per share. The number of shares offered was 20,869,565 shares. Total capital raised was approximately \$751 million and market capitalization at listing was around \$9.2 billion.

Virjee's stock price surged on its first day of trading, closing at \$62 per share, significantly above its offering price. The company's strong market debut reflected investor confidence in its growth prospects and business model. Virjee Inc pays a dividend of 10% on its \$.62 par value ordinary shares and uses a discount rate of 15%. It anticipates that the shares will grow by 5% in the near future.

The listing occurred during a period of significant growth for technology companies, particularly those offering software-as-a-service (SaaS) solutions. Investors were highly interested in companies that could demonstrate strong revenue growth, profitability, and a clear path to market leadership.

Virjee faced stiff competition from established players. Maintaining high service quality while scaling rapidly was a critical challenge. Over the years Virjee has realized that ensuring robust security and privacy measures was essential to maintain customer trust.

Required:

- a) Examine two reasons that made Virjee Vee Inc. to go public **(5 marks)**
- b) Evaluate the method that will be used to estimate the intrinsic value of Virjee Vee Inc.'s stock and the assumptions made thereof **(5 marks)**

- c) Assess the role Virjee's dividend policy plays in its valuation, and how the Dividend Discount Model (DDM) factor in this policy (4 marks)
- d) Examine the challenges that Virjee Vee Inc. will face in sustaining its valuation, and how these challenges impact its stock price (4 marks)
- e) Suppose Virjee Inc paid a dividend of 10% on its \$ 62 par value ordinary shares and uses a discount rate of 15%. It anticipates that the shares will grow by 5% in the near future.

Required:

- i. Calculate the value of its ordinary share assuming the share does not grow (3 marks)
- ii. Calculate the value of its ordinary share if the share grows by 5% (4 marks)

QUESTION TWO

- a) As much as public listed companies are expected to timely release all information about their company to the interested parties, there are some additional costs associated with this. Examine four costs of disclosure of financial information (8 marks)
- b) A 4-year corporate bond is issued with a 12% coupon rate at a \$5,000 face value. It has a yield to maturity of 10%. According to the bond indenture, coupon payments are payable annually to the investor.

Required:

- i. Determine the Present Value of Single Cashflow from future coupon payments (3 marks)
- ii. Determine the total cashflow from coupon payments (4 marks)

QUESTION THREE

a) Propose the steps an analyst would follow to conduct financial statement analysis
(5 marks)

b) The data below relates to ABC Ltd's Income Statement and Balance Sheet;

Profit or Loss and Other Comprehensive Income Data (in \$ millions):

- Total Sales: \$200 million
- Cost of Goods Sold (COGS): \$120 million
- Gross Profit: \$80 million
- Operating Expenses: \$40 million
- Net Income: \$20 million
- Common Size Income Statement:

Statement of Financial Position Data (in \$ millions):

- Total Assets: \$500 million
- Cash: \$50 million
- Inventory: \$150 million
- Property, Plant, and Equipment (PP&E): \$200 million
- Total Liabilities: \$300 million
- Total Equity: \$200 million

Required:

Prepare a common size income statement and balance sheet analysis (10 Marks)

QUESTION FOUR

a) XYZ Manufacturing Co. is planning its cash budget for the upcoming quarter. The company produces and sells widgets, and management needs to ensure that it has sufficient cash flow to meet its obligations and avoid liquidity problems. The following information has also been provided:

- Sales are projected to be \$200,000 in January, \$250,000 in February, and \$300,000 in March.
- 60% of sales are collected in the month of sale, 30% in the following month, and 10% in the second month after the sale.
- Purchases are \$100,000 in January, \$120,000 in February, and \$150,000 in March. Purchases are paid 50% in the month of purchase and 50% in the following month.
- Other expenses are \$30,000 per month.
- The opening cash balance on January 1st is \$20,000.
- The company aims to maintain a minimum cash balance of \$10,000.
- No capital expenditures or loan payments are expected during this period.

Required:

Prepare a cash budget for the 1st quarter using the receipts and payments method

(9 marks)

b) Discuss three reasons why financial forecasting is important

(6 marks)**QUESTION FIVE**

a) Company A has provided you with the following information:

Total assets are worth \$3,500,000

Working capital of \$4,200,000.

Liabilities stand at \$5,000,000

Retained earnings amount to \$800,000.

Earnings Before Interest and Tax come to \$6,500,000.

Sales total \$8,300,000 while the market value of equity is \$7,000,000.

Required:

Calculate the Altman's Z score and advise Company A **(7 marks)**

- b) Briefly discuss four other assumptions underlying the percentage of sales method **(8 marks)**

QUESTION SIX

- a) Describe five limitations of the use of ratios as a basis of financial analysis **(5 marks)**
- b) Examine the need for financial statements to five users **(10 marks)**