

UGB363 Strategic Corporate Finance

Individual assignment

Weighting – 100% of the marks for this module

This is an individual assignment of 3,000 words. (+ or – 10%)

The hand in date is: Friday 26th July 2019

Students are required to submit their coursework through JIRA. Only assessments submitted through JIRA will be marked. Any other submission including submission to your study centre in hard copy will be treated as a non-submission.

If your centre supports Turnitin©, a copy of your Turnitin© originality report must be submitted in conjunction with your assignment.

Requirements:

Part A of the assessment is compulsory for all students with a marking allocation of 50% awarded within this element. Students will then select to attempt **EITHER** Part B or Part C of the assessment with this element of the work also being awarded a mark allocation of 50%.

The assignment has been designed to cover the following learning outcomes associated with successful completion of the module:

Knowledge

K1. Critical understanding of the key strategic decisions that a business may have to make and appreciated how accounting and finance can assist in making and evaluating those decisions.

K2. Critical understanding of specific analytical skills in key decision areas within strategy and finance at local and international level.

K3. Critical understanding of the limitations of the current state of financial theory in making strategic business decisions.

Skills

S1. Competence in applying the key valuation concepts and methodologies of financial decision making in order to contribute to the wider decision making of the organisation

Part A (compulsory)

You have recently joined the investment team as a financial analyst at Trimble PLC, a financial advisory firm based within Hong Kong. As part of the initial duties you have been asked by the Board of Directors to investigate the five-year performance of a **SINGLE** company that is currently listed on the Hong Kong Stock Exchange and forms part of the Hang Seng Index with the view to potentially investing future company funds into the chosen company:

Required:

Select a **SINGLE** company that is listed on the Hang Seng Index and prepare a report for the Board of Directors of Trimble PLC analysing and evaluating the five-year performance of the chosen company.

In this section students should demonstrate both knowledge and understanding of a range of topics, theories, and concepts covered within the UGB363 Strategic Corporate Finance module. A report format should be utilized that offers clear, concise analysis, resulting in the production of robust recommendations. Topics and concepts that can be considered for inclusion within the report include corporate governance policy, financing strategy, investment strategy, ratio analysis and interpretation, capital structure alterations, dividend policy, and merger and acquisition activity. This is not an exhaustive list and students should be prepared to investigate other key aspects from the module if they feel necessary.

Total for Part A – 50 marks

Part B

(a). Company A has 6 million shares in issue and Company B 20 million. On day 1 the market value per share is £6 for A and £10 for B. On day 2, the management of B decides, at a private meeting, to make cash takeover bid for A at a price of £10 per share. The takeover will produce large operating savings with a value of £40 million. On day 5, B publicly announces an unconditional offer to purchase all shares of A at a price of £10.00 per share with settlement on day 20. Details of the large savings are not announced and are not public knowledge. On day 15, B announces details of the savings, which will be derived from the takeover.

Required:

Ignoring tax and the time-value of money between days 1 and 20, and assuming the details given are the only factors having an impact on the share prices of A and B, determine the day 2, day 5, and day 15 share prices of A and B if the market is:

1. **Semi-strong form efficient, and**
2. **Strong form efficient**

In each of the following circumstances:

- (i) the purchase consideration is cash as specified above, and **(5 marks)**
- (ii) the purchase consideration, decided upon on day 2, and publicly announced on day 5, is one newly issued share of B for each share of A. **(5 marks)**

(b). The Efficient Market Hypothesis states that “security prices fully reflect all available information” (Fama, 1991).

Required:

Critically evaluate the previous statement, ensuring the response is supported with relevant empirical evidence. **(40 marks)**

In this section students should demonstrate an understanding and knowledge of the theoretical aspects that underpin the differing strengths of market efficiency. The discussion / evaluation should be supported with relevant, contemporary, academic research that has been undertaken within this field and should be referenced accordingly. Ensure the response does not become overly descriptive within its approach, rather, attempt to incorporate a critical viewpoint throughout, allowing logical conclusions to be offered.

Total for Part B – 50 marks

Part C

(a). It is 31 January 2019 and the managers of Bluechip are considering a change in the company's dividend policy. Earnings per share for 2018 for the company were 85.6p, and the finance director has said that he expects this to increase to 90p per share for 2019. The increase in earnings per share is in line with market expectations of the company's performance. The pattern of recent dividends, which are paid on 31 December is as follows:

Year	2018	2017	2016	2015	2014	2013
Dividend per Share (pence)	42.8	41.1	39.4	39.1	37.8	36.4

The managing director has proposed that 70 per cent of earnings in 2018 and subsequent years should be retained for investment in new product development. It is expected that, if this proposal is accepted, the dividend growth rate will be 5.50 per cent. Bluechip's cost of capital is estimated to be 8 per cent.

Required:

Calculate the share price of Bluechip in the following circumstances.

- The company decides not to change its current dividend policy. **(9 marks)**
- The company decides to change its dividend policy as proposed by the managing director and announces the change to the market. **(6 marks)**

Required:

(b). Does the dividend policy adopted by a company impact upon the market value of that company? Academic findings within this area have provided conflicting evidence with two distinct theoretical schools of thought; one supporting dividend relevance and the other dividend irrelevance. Critically analyse and evaluate the differing theoretical viewpoints, ensuring the response is developed through incorporating relevant academic research that has been performed within this area. **(35 marks)**

In this section students should demonstrate knowledge, understanding, and an ability to critically evaluate and analyse the main dividend relevance and irrelevance theoretical viewpoints. The response should be developed through use of a wide range of relevant academic literature, referenced as per Harvard referencing requirements. The inclusion and ability to integrate real-life practical business examples, addressing whether differing

companies adopt a dividend relevance or irrelevance standpoint would assist in developing the response in greater depth.

Total for Part C – 50 marks

Generic Assessment Criteria – Undergraduate Bachelor's degree

		Categories						
Grade	Relevance	Knowledge	Analysis	Argument and Structure	Critical Evaluation	Presentation	Reference to Literature	
Pass	86 – 100%	The work examined is exemplary and provides clear evidence of a complete grasp of the knowledge, understanding and skills appropriate to the Level of the qualification. There is also unequivocal evidence showing that all the learning outcomes and responsibilities appropriate to that Level are fully satisfied. At this level it is expected that the work will be exemplary in all the categories cited above. It will demonstrate a particularly compelling evaluation, originality, and elegance of argument, interpretation or discourse.						
	76-85%	The work examined is excellent and demonstrates comprehensive knowledge, understanding and skills appropriate to the Level of the qualification. There is also excellent evidence showing that all the learning outcomes and responsibilities appropriate to that level are fully satisfied. At this level it is expected that the work will be excellent in the majority of the categories cited above or by demonstrating particularly compelling evaluation and elegance of argument, interpretation or discourse and there may be some evidence of originality						
	70 – 75%	The work examined is of a high standard and there is evidence of comprehensive knowledge, understanding and skills appropriate to the Level of the qualification. There is also clearly articulated t evidence demonstrating that all the learning outcomes and responsibilities appropriate to that level are satisfied At this level it is expected that the standard of the work will be high in the majority of the categories cited above or by demonstrating particularly compelling evaluation and elegance of argument, interpretation or discourse.						
	60 – 69%	Directly relevant to the requirements of the assessment	A substantial knowledge of relevant material, showing a clear grasp of themes, questions and issues therein	Good analysis, clear and orderly	Generally coherent and logically structured, using an appropriate mode of argument and/or theoretical mode(s)	May contain some distinctive or independent thinking; may begin to formulate an independent position in relation to theory and/or	Well written, with standard spelling and grammar, in a readable style with acceptable format	Critical appraisal of up-to-date and/or appropriate literature. Recognition of different perspectives.Very good use of source material. Uses a range of
	50 – 59%	Some attempt to address the requirements of the assessment: may drift away from this in less focused passages	Adequate knowledge of a fair range of relevant material, with intermittent evidence of an appreciation of its significance	Some analytical treatment, but may be prone to description, or to narrative, which lacks clear analytical purpose	Some attempt to construct a coherent argument, but may suffer loss of focus and consistency, with issues at stake stated only vaguely, or theoretical mode(s) couched in simplistic terms	Sound work which expresses a coherent position only in broad terms and in uncritical conformity to one or more standard views of the topic	Competently written, with only minor lapses from standard grammar, with acceptable format	Uses a variety of literature which includes some recent texts and/or appropriate literature, though not necessarily including a substantive amount beyond library texts. Competent use of source material.
40 – 49%	Some correlation with the requirements of the assessment but there are instances of irrelevance	Basic understanding of the subject but addressing a limited range of material	Largely descriptive or narrative, with little evidence of analysis	A basic argument is evident, but mainly supported by assertion and there may be a lack of clarity and coherence	Some evidence of a view starting to be formed but mainly derivative.	A simple basic style but with significant deficiencies in expression or format that may pose obstacles for the reader	Some up-to-date and/or appropriate literature used. Goes beyond the material tutor has provided. Limited use of sources to support a point.	
Fail	35 – 39%	Relevance to the requirements of the assessment may be very intermittent, and may be reduced to its vaguest and least challenging terms	A limited understanding of a narrow range of material	Heavy dependence on description, and/or on paraphrase, is common	Little evidence of coherent argument: lacks development and may be repetitive or thin	Almost wholly derivative: the writer's contribution rarely goes beyond simplifying paraphrase	Numerous deficiencies in expression and presentation: the writer may achieve clarity (if at all) only by using a simplistic or repetitious style	Barely adequate use of literature. Over reliance on material provided by the tutor.
	The evidence provided shows that the majority of the learning outcomes and responsibilities appropriate to that Level are satisfied – for compensation consideration.							

30 – 34%	The work examined provides insufficient evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence provided shows that some of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in some of the indicators.
15-29%	The work examined is unacceptable and provides little evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence shows that few of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in several of the indicators.
0-14%	The work examined is unacceptable and provides almost no evidence of the knowledge, understanding and skills appropriate to the Level of the qualification. The evidence fails to show that any of the learning outcomes and responsibilities appropriate to that Level are satisfied. The work will be weak in the majority or all of the indicators.

