Kasarani Campus
Off Thika Road
P. O. Box 49274, 00101
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATIONS, 2024/2025 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE MASTER IN BUSINESS ADMINISTRATION
KFI 3105 FINANCIAL MANAGEMENT

Date: 12TH AUGUST, 2024
Time: 11:00 AM – 2:00 PM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER THREE QUESTIONS

QUESTION ONE: COMPULSORY (40 MARKS)

Case Study
Investment Analysis for Value Creation

Property Holdings Limited (with interests in real estate) has just bought a piece of land for sh. 5,000,000 along Ngong road, Nairobi, Kenya where the car wash business seems to be thriving. The company does not seem to have any immediate use for the land. Hence, its management has found an investor (with interests in public transport) who will lease the land for 4 years- the investor will pay Property Holdings Limited a monthly rental payment of sh. 30,000 over the next 4 years. The investor has interests in soft drinks processing and would consider a Merger with Property Holdings Limited in the next few years as part of its diversification strategy. The property firm wants a minimum return of 10% per annum from the lease of land. Land grabbing is a major concern for most land owners in Nairobi!
The public transport company is offering Property Holdings Limited an alternative. It proposes to lease the land for 4 years at a monthly rental payment of sh. 20,000. The County government is keen on charging sh. 6,000 monthly on any land without any active utilization: The Company's Finance manager is willing to spend the sh. 6,000! The management of Property Holdings Limited is keen on value maximization from the land lease transaction: this may include borrowing some additional capital from the capital markets. The property firm is considering engaging a financial management consultant to advice on the best way forward considering the two competing capital investment alternatives.

In view of the case study above, you are required to:

a) Explain Shareholder Wealth Maximization as an objective for Property Holdings Limited in the context of the case study **(6 Marks)**

b) Describe **THREE** sources of business finance that Property Holdings Limited could consider especially from the national stock market **(6 Marks)**

c) Discuss **THREE** factors which are bound to affect the value of land (as part of Real property) hence informing the management of Property Holdings Limited **(6 Marks)**

d) Explain any **THREE** possible motives for the impending merger considering the circumstances above **(6 Marks)**

e) Describe **FOUR** internal controls that Property Holdings Limited could put in place to safeguard the Land against theft and misuse **(8 Marks)**

f) Discuss **FOUR** ways that Property Holdings Limited could embrace management of working capital to avoid liquidity problems **(8 Marks)**

QUESTION TWO:(20 MARKS)

a) Discuss any **TWO** factors that a Commercial bank should consider in pursuing a capital investment proposal of opening a new branch in a rural area **(4 Marks)**

b) Using appropriate examples, explain **THREE** motives of a merger between an insurance firm and a five-star hotel **(6 Marks)**

c) Discuss how a small-scale business could adopt venture capital as a source of financing amidst capacity constraints and liquidity problems **(6 Marks)**

d) Describe **TWO** main contributions by Modigliani and Miller (1961) in their dividend policy irrelevance theory in their attempt to link dividend policy and firm value **(4 Marks)**

QUESTION THREE: (20 MARKS)

a) Discuss any two functions of a finance manager of a supermarket **(4 Marks)**

b) XYZ Ltd considers the following capital structure to be appropriate for the coming year:

16% Bank loan	3,000,000
8%, sh. 1,000 Par Bond	2,000,000
Retained earnings	1,500,000
3%, sh.500 Par Preferred stock	2,500,000
Common stock (10,000 shares)	1,000,000

Additional Information:

- **i.** The tax rate of 30% is applicable
- **ii.** The market value of debt (Bonds) is sh. 950.
- **iii.** Preference shares of a similar type currently trading at a price of sh. 510 and the new issue is attracting 2% in floatation/issue costs.
- **iv.** Common stock has a 2% growth rate in dividends.
- **v.** Last year, the firm paid sh.3.00 in Common stock dividends. The Common stock outstanding is currently trading at sh. 145 with floatation cost of 5% expected.
- **vi.** Use market value weights where applicable.

Required

- **i.** Compute the cost of debt, retained earnings, common stock and preferred stock **(13 Marks)**
- **ii.** Compute the Weighted Average Cost of Capital (WACC) of the firm and advise **(3 Marks)**

QUESTION FOUR: (20 MARKS)

a) Describe the scope of public finance in a developing country such as Kenya **(6 Marks)**

b) PMX Limited is considering capital investments having secured long-term funding from some international organization. Generally, the company evaluates proposed investments though a financial analysis besides an assessment of some non-financial factors.

Expected net cash inflows (Figures are in millions/'000)

Project	Year 1	Year 2	Year 3	Year 4	Year 5	**Initial outlay**
	Shs	**Shs**	**Shs**	**shs**	**Shs**	**Shs**
A	70,000	70,000	70,000	70,000	70,000	**(246,000)**
B	75,000	87,000	64,000			**(180,000)**
C	48,000	48,000	63,000	73,000		**(175,000)**
D	62,000	62,000	62,000	62,000		**(180,000)**
E	40,000	50,000	60,000	70,000	40,000	**(180,000)**
F	35,000	82,000	82,000			**(150,000)**

Considering fairly similar characteristics of these projects, annual operating costs/variable costs for each project are estimated at sh. 20,000,000. The firm's investors require a minimum return (the firm's cost of capital) of 12% on all its proposed capital investments.

Required:

- **i.** Discuss soft capital rationing in in the context of Project B and E **(4 Marks)**
- **ii.** Compute the Net Present Value (NPV) for Project B and E and advise **(10 Marks)**

QUESTION FIVE: (20 MARKS)

a) Compute the value of a 5-year, 7% 1,000 shillings Corporate Bond with a market interest rate of 8% **(6 Marks)**

b) Describe **THREE** main issues that anchor Bird in the hand theory by Gordon and Lintner (1962) in their attempt to explain the relevance of dividends in influencing firm value **(6 Marks)**

c) Using appropriate examples, distinguish between a conglomerate merger and a horizontal merger **(8 Marks)**