

VICTORIA INTERNATIONAL APPLIED FINANCE PROGRAMME
School of Economics and Finance

MMAF502 CORPORATE FINANCE

Trimester Two 2007

COURSE OUTLINE

Contact Details

The course coordinator is Dawn Lorimer. Room RH306. Preferred contact is by email.
Email address: dawn.lorimer@vuw.ac.nz

The course lecturer is Joe Cheung. Preferred contact is by email. Email address:
jcheung@xtra.co.nz
(Please note that Joe is based in Auckland.)

Block Release Times

9:30am Tuesday, 28th August – 12:30pm Thursday, 30th August 2007
and 9:30am Tuesday, 23rd October – 12:30pm Thursday, 25th October 2007.

A detailed schedule of each block release course will be supplied closer to the August and October sessions.

Course Objectives

This course aims to provide students with a thorough understanding of the fundamental concepts in Corporate Finance. Students will learn how these concepts can be applied in making corporate financial decisions. On completion of this course, students should:

- have a good understanding of the conceptual foundations that underlie corporate financial decision making;
- be able to perform a sound valuation of companies and investment projects;
- be able to apply a logical framework to analyse corporate financial decisions in areas such as capital structure, dividend policy and risk management; and
- gain an appreciation of the New Zealand environment in which corporate decisions are made.

Course Content

First Block: Topics, Readings and Assignment 1 Questions from the RWJ textbook

<i>Readings: RWJ chapter(s)</i>	<i>Topic</i>	<i>Assignment 1 Questions</i>
1. Primarily background materials 2. Focus on how to derive cash flows from financial statements	Overview Financial Statements and Cash Flow	
4. Basic financial mathematics. It is important to have more practice. 5. Important to know that the value of a financial asset is the discounted value of its future cash flows (i.e. the DCF approach).	Time Value of Money Valuation of Bonds and Stocks	Prob. 4.11, 4.21, 4.35, 4.46 Prob. 5.7, 5.17, 5.18
6. Investment decision rules. Try to understand the pros and cons of each method. 7. Consider how to deal with practical issues that arise in applying the NPV. 8. Do not worry about the calculations in this Chapter. Just try to understand the ideas.	Capital Budgeting Decision Rules Issues in NPV Applications Risk Analysis & Real Options Ideas	Prob. 6.14, 6.23 Prob. 7.19, 7.21
22. The key objective here is to understand the difference between buying and selling an option, and between a call and a put option. Do not worry about how to do calculations using the Black-Scholes formula using tables. 23. This chapter could be difficult to follow. Focus mainly on the ideas. Any calculation required will be at a level similar to Prob. 23.3 that requires a 1-period binomial model.	Basic Concepts in Options Introduction to Real Options	Prob. 22.6, 22.10 Prob. 23.3
9. Basic calculations in investment analysis. Should know how to calculate returns and standard deviations, even though these calculations are easily done in Excel. 10. This chapter introduces a fundamental relationship in Finance. Concepts in this chapter are important. 12. This chapter introduces beta estimation and the cost of	Introduction to Risk and Return Risk and Return - CAPM Cost of Capital	Prob. 9.13 Prob. 10.26, 10.33, 10.34 Prob. 12.12, 12.16

capital concept. Cost of capital is a widely used concept in corporate finance.		
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Second Block: Topics, Readings and Assignment 2 Questions from the RWJ textbook

<i>Readings: RWJ chapter(s)</i>	<i>Topic</i>	<i>Assignment 2 Questions</i>
13. This chapter introduces the concept of market efficiency and discusses implications for investment and financing decisions. Mainly conceptual.	Capital Markets Efficiency	Prob. 13.4, 13.5
15. Introduction to capital structure theory. Treatment is rather theoretical but the concepts are fundamental in corporate finance.	Basic Concepts in Capital Structure	Prob. 15.3, 15.12, 15.18
16. This chapter examines what happens to the theory developed in the previous chapter under more realistic assumptions.	Capital Structure Theory with Financial Distress and Agency Costs	Prob. 16.2, 16.15
17. This chapter compares different approaches used to value a firm with debt. Both the techniques and concepts discussed are important in practice.	Advanced Capital Budgeting with Debt/Equity	Prob. 17.2, 17.11, 17.15
18. Dividend policy, much like capital structure decision, is irrelevant under highly simplifying assumptions. However, issues such as taxes and information asymmetry must be considered in setting a dividend policy.	Dividend Policy and Related Issues	Prob. 18.8, 18.22
19. Focus on IPO and rights issue. Ignore all US institutional details.	Raising Equity: IPO and Rights Issue	Prob. 19.10, 19.13
20. Overview of long-term debt financing. Ignore all US institutional details.	Callable Bonds and Bond Ratings	Prob. 20.7
24. Warrants and convertible bonds are two interesting financing alternatives.	Warrants and Convertibles	Prob. 24.6, 24.14
25. Just read sections 25.1, 25.2 and 25.3. It is sufficient to know what a forward/futures contract is and the basic idea of hedging.	Hedging & Corporate Risk Management	Prob. 25.6
29. Ignore sections 29.1, 29.2 and 29.3, 29.10 and 29.12. Our main focus here is on synergy,	Mergers and Acquisitions	Prob. 29.8, 29.11

economic rationales for merger and how to calculate the NPV for each party to the merger.		
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Expected Workload

	<u>Activity type</u>	<u>Number of hours</u>
Weeks (12) outside block release	Readings/studying	100 hours
	Assignments	30 hours
	Mini Project	20 hours
Two block releases	Lectures/tests	40 hours
	Studying	10 hours

Readings

Ross, Westerfield and Jaffe (2002), Corporate Finance, 7th edition, McGraw-Hill Irwin. (RWJ)

Any additional materials will be obtainable from the internet or else will be supplied as hand-outs.

Materials and Equipment

Students are expected to use Microsoft Excel to perform calculations in this paper. Therefore, you should use Excel to find the answers for all numerical questions in the two assignments. You will also have access to Excel during the two tests. Therefore, if you are new to Excel, you need to acquire basic spreadsheet skills and learn how to use the following financial functions in Excel: PV, FV, PMT, RATE, NPER, NPV and IRR. While the use of these Excel functions will be demonstrated in the first Block Release, you need to learn them on your own beforehand in order to do some of the assignment questions. The built-in help facilities in Excel provide detailed explanations on how each function works and examples. Please email Joe Cheung if you problems with these Excel functions.

Assessment Requirements

There will be two assignments, one project and two tests. The two assignments consist of end of chapter problems in RWJ. The set of problems are listed under 'Course Content' above. Each assignment will be due before each block release. The project requires you to write a funding strategy report for a New Zealand listed company (see descriptions below). It will be due approximately 2 weeks after the second block release.

A 2-hour test will be held at the end of each block release. The marks will be allocated as follows:

First session:

Assignment 1:	8%
<u>Test 1:</u>	<u>33%</u>

Second session:

Assignment 2:	8%
Individual Project:	18%
<u>Test 2:</u>	<u>33%</u>
<u>Total</u>	<u>100%</u>

Note that students must attain an overall mark of 50% in order to achieve a passing grade.

The due dates for the assignments and the project are listed below:

Assignment 1	13 Aug 2007 (Monday)
Assignment 2	8 October 2007 (Monday)
Individual Project	7 November 2007 (Wednesday)

Individual Project Descriptions

The individual course project is aimed to provide an exercise in a practical setting that requires you to integrate principles in capital structure, dividend policy and the raising of capital. This exercise will entail broad discussions of many Finance issues that are covered in this course.

You will be asked to write a funding strategy report to present to the company's board of directors. You need to forecast the funding requirements for the assigned company for the next 3 years and provide a recommendation on how the company should raise the funds required. Recommendations could include a private placement of shares, a rights issue, a warrants issue, a convertible bonds issue, or some combination of debt and equity. It is also possible that you believe there is no need for the company under consideration to raise external funds. In that case, however, you still need to analyse the current capital structure and dividend policies of the firm and explain why it is unnecessary to make any changes in these policies (e.g. an issuance of debt to repurchase shares, a change in dividend payout, or a repayment of debt).

In formulating your funding strategy, you must provide detailed explanations of the rationales behind your recommendations. The explanations should be based on a sound application of Finance theories/principles while taking into account the particular circumstances of the company.

Your report should be about 3 pages long and should include, amongst any other items that you believe are important, the following information:

- a brief summary of the nature of each company's line of business and business activities;
- basis for your projections of the funding needs of the company;
- tables containing key figures/ratios that help you form a view of what the companies' current financial policies are and briefly comment on the appropriateness of these financial policies based on Corporate Finance principles that are discussed in this course;
- your recommendations on how the company should meet its funding requirements taking into account the company's current financial policies and circumstances; and
- the rationales behind your recommendations.

Please note that this is not a research project. Therefore you are only expected to rely on the most recent company annual report(s) for information. The annual report(s) can be downloaded from the company's website. The New Zealand Stock Exchange website (www.nzx.com) contains internet addresses for most listed companies in New Zealand.

Penalties

Each of the assignments will be marked out of a maximum that diminishes by 5% for every day late, with a weekend counting as one day. The date of submission shall be taken as the date of delivery or the day of postmark, if by post. There will be a final cut off date, one week after the due date for each assignment, after which no assignment can be accepted. The assignments will each carry a specified word limit. If an assignment exceeds the word limit, credit will be given only from the beginning of the assignment up to the word limit. No credit will be given for the portion of work extending beyond the word limit.

Mandatory Course Requirements

A student must: (i) attend all sessions of both block release courses; (ii) achieve a minimum of a 45% average in the two tests.

Communication of Additional Information

Additional information including assignment questions, details of the block course schedule, feedback on course assessments, etc will be provided by email or by post. Students are responsible for ensuring that the VIAF Programme senior administrator, Bun Wong, has their up to date email and postal addresses.

If you have, or become aware of, any health condition that could prevent you attending a VIAF compulsory block release, then you should notify the Programme Director immediately, preferably by email, dawn.lorimer@vuw.ac.nz.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to www.vuw.ac.nz/policy.

Student and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at www.vuw.ac.nz/policy/studentconduct. The Policy on Staff Conduct can be found on the VUW website at www.vuw.ac.nz/policy/staffconduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website at www.vuw.ac.nz/policy/academicgrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website at www.vuw.ac.nz/home/studying/plagiarism.html.

Notice of Turnitin Use

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. At the discretion of the Head of School, handwritten work may be copy typed by the School and subject to checking by Turnitin. You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

Students with Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and Faculty delegates. The Education Office (tel. 04 463 6983 or 04 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.