



London School of Business & Finance (LSBF)	MSC/MBA Finance
Module	Advanced Financial Management
Assignment Type	Written Report
Word Limit	2500
Weighting	50%
Student Cohort	Intake 5
Issue Date	2 March 2011
Submission Date	4 April 2011
Feedback Date	
Issued by (Assessor)	Dr P. Wheale
Internal Verifier	Augustine Entonu
Plagiarism	When submitting work for assessment, students should be aware of the LSBF guidance and regulations in concerning plagiarism. All submissions should be your own, original work.
	You must submit an electronic copy of your work. Your submission will be electronically checked.
Harvard Referencing	The Harvard Referencing System must be used. The Wikipedia website must not be referenced in your work.
Learning Outcomes	<p>On successful completion of this assignment you will be able to:</p> <p>LOS 1: Understand the economic rationale for financial management for different types of firms with particular reference to multinational firms</p> <p>LOS 2: analyse and evaluate various ways in which options and hedging can be used to protect investments and how they can be used as both speculative and risk management tool</p> <p>LOS 4: Understand the rational for financial planning</p> <p>LOS 5: Familiarize participants with modern instruments of hedging</p> <p>LOS 8 & 9: Discuss in context the linkage between current theory and practice of financial management and Critically evaluate how companies use derivatives to hedge against various types of risk</p> <p>LOS 10 & 11: Demonstrate awareness of different approaches to the implementation of a chosen strategy for a banking firm and Show awareness of different valuation methods commonly used in equity, bond and derivatives markets</p> <p>LOS 11, 12 & 13: Present information effectively in written form at an appropriate level including the acknowledgement and referencing of sources and also capability for independent and self-managed learning, Contextualising the knowledge, competencies and practical skills from the module and apply this to real world project contexts and activities and Communicate effectively using appropriate oral and presentation techniques</p>
Grading Criteria	Please see separate Assignment Grading Criteria Autumn 2011 sheet for this Assignment.



Your Task

Part A: Private Wealth Investment Analyst

You are a private wealth Investment Analyst at Seer Ltd and you are reviewing the company's investment portfolio on behalf of your clients. About 15% of the portfolio is represented by a holding of **11,100,000** ordinary shares of Oracle PLC.

The managers are concerned about the effect on portfolio value if the price of Oracles shares should fall, and are considering selling the shares. Seer's investment bank has suggested that the risk of Oracles' shares falling by more than 5% from their current value could be protected against by buying an over the counter option. The investment bank is prepared to sell an appropriate six month option to Seer for **£850,000**.

You follow a rule of receiving an investment advice from the investment bank and collecting relevant information from other sources to arrive at an independent decision so as to always protect the client's investment and as such have been able to gather the following additional information:

Additional Information

- i) The current market price of Oracle's ordinary shares is **720 pence**.
- ii) The annual volatility (variance) of Oracles' shares for the last year was 169%.
- iii) The risk free rate is 4% per year.
- iv) Oracle does not expect to pay dividend during the next six months.

Required:

Write a report to your Wealth manager based on the following brief

Section 1: Evaluate whether or not the price at which the investment bank is willing to sell the option is a fair price.

(40 marks)

Section 2: Discuss what factors Seer should consider before deciding whether or not to purchase the option.

(10 marks)

(50 marks)



You are the Financial Analyst working with the management team of Skywalker plc. Your team are discussing how the company should appraise new investments. There is a difference of opinion between two product managers.

- Manager Alpha believes that net present value should be used as positive NPV investments are quickly reflected in increases in the company's share price.
- Manager Bravo states that NPV is not good enough as it is only valid in potentially restrictive conditions, and should be replaced by APV (adjusted present value).

Your team of junior analyst have produced estimates of relevant cash flows and other financial information associated with a new investment.

These are shown below:

Year	£000			
	1	2	3	4
Investment pre-tax operating cash flows:	1,500	1,700	1,800	1,950

Notes:

i) The investment will cost £6,400,000 payable immediately, including £500,000 for working capital and £400,000 for issue costs. £300,000 of issue costs is for equity, and £100,000 for debt. Issue costs are not tax allowable.

ii) The investment will be financed 50% equity, 50% debt which is believed to reflect its debt capacity.

iii) Expected company gearing after the investment will change to 60% equity, 40% debt by market values.

iv) The investment equity beta is 1.4

v) Debt finance for the investment will be a 9% fixed rate debenture.

vi) Capital allowances are at 25% per year on a reducing balance basis.

vii) The corporate tax rate is 30%. Tax is payable in the year that the taxable cash flow arises.

viii) The risk free rate is 6% and the market return 12%.

ix) The after tax realisable value of the investment as a continuing operation is estimated to be £1.7 million (including working capital) at the end of year 4.

x) Working capital may be assumed to be constant during the four years.

Required:

The Financial Director has asked that you prepare a report addressed to both managers on the following points:

a) Calculate the expected NPV and APV of the proposed investment. **(36 marks)**

b) Discuss briefly the validity of the views of the two managers. Use your calculations in (a) to illustrate and support the discussion. **(14 marks)**
(50 marks)

Please note that professional points are available for the tone of the report, quality of content and structure.

Guidelines

Indicative	UK %	Characteristics
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Grade	Marks	
A	70%+	<ul style="list-style-type: none"> ▪..... Very high standard of critical analysis using appropriate conceptual frameworks ▪..... Excellent understanding and exposition of relevant issues ▪..... Clearly structured and logically developed arguments ▪..... Good awareness of nuances and complexities ▪..... Substantial evidence of well-executed independent research ▪..... Excellent evaluation and synthesis of source material ▪..... Excellent use of relevant data and examples, all properly referenced
	Distinction 70% and above	
B	60 - 69%	<ul style="list-style-type: none"> High standard of critical analysis using appropriate conceptual frameworks ▪..... Clear awareness and exposition of relevant issues ▪..... Clearly structured and logically developed argument ▪..... Awareness of nuances and complexities ▪..... Evidence of independent research ▪..... Good evaluation and synthesis of source material ▪..... Good use of relevant data and examples, all properly referenced
C	50 – 59%	<ul style="list-style-type: none"> ▪..... Uses appropriate conceptual frameworks ▪..... Attempts analysis but includes some errors and/or omissions ▪..... Shows awareness of issues but no more than to be expected from attendance at classes ▪..... Arguments reasonably clear but underdeveloped ▪..... Insufficient evidence of independent research ▪..... Insufficient evaluation of source material ▪..... Some good use of relevant data and examples, but incompletely referenced
D	40 – 49%	<ul style="list-style-type: none"> ▪..... Adequate understanding of appropriate conceptual frameworks ▪..... Answer too descriptive and/or any attempt at analysis is superficial, containing errors and/or omissions ▪..... Shows limited awareness of issues but also some confusion ▪..... Arguments not particularly clear ▪..... Limited evidence of independent research and reliance on a superficial repeat of class notes ▪..... Relatively superficial use of relevant data, sources and examples and poorly referenced
	UOW Pass Mark = 40%	
E	30 – 39%	<ul style="list-style-type: none"> ▪..... Weak understanding of appropriate conceptual frameworks ▪..... Weak analysis and several errors and omissions ▪..... Establishes a few relevant points but superficial and confused exposition of issues ▪..... No evidence of independent research and poor understanding of class notes



		<ul style="list-style-type: none"> ▪..... Poor or no use of relevant data, sources and examples, and no references
F	0 – 29%	<ul style="list-style-type: none"> ▪..... Very weak or no understanding of appropriate conceptual frameworks ▪..... Very weak or no grasp of analysis and many errors and omissions ▪..... Very little or no understanding of the issues raised by the question ▪..... No appropriate references to data, sources, examples or even class notes

Note

This Assignment Briefing Sheet Autumn 2011 is available on <http://docs.google.com/> for you to view and print off at a type size more convenient to you.