MAC3702
APPLICATIONS OF FINANCIAL MANAGEMENT TECHNIQUES
ASSIGNMENT 02/2014 FOR THE SECOND SEMESTER

DUE DATE: 18/08/2014

UNIQUE NUMBER: 858860

The assignment consists of five questions and counts 50 marks in total. Answer each question and number your answers clearly on you answer sheet. Please note that only one of the five questions will be marked. It is therefore important that you answer all the questions.

This assignment is a **written assignment** and can either be written or typed and posted; or it can be typed, converted to a **PDF document** and submitted online on *my*Unisa.

Assignments may not be submitted by fax or email.

Please remember to enter the **correct unique number of the assignment AND your correct student number** on the assignment submitted for marking.

ASSIGNMENT 02/2014, SECOND SEMESTER

QUESTION 1

The following information relates to Kgorong (Pty) Ltd:

- Latest dividend declared and paid in 2013: R 550 000
- Expected growth in dividends :

2014:	10%
2015:	15%
2016:	20%
2017 and thereafter:	25% per annum

- 28% is a fair rate of return on minority shares.

Required:

(a) Calculate the value of a minority share of 10% in Kgorong (Pty) Ltd. (6)

(b) What conditions should be met in order to obtain more reliable results when using the Gordon Dividend Growth Model to value a minority share? (4)

[10]

QUESTION 2

Company XYZ has R100 000 available and needs to choose between the following indivisible projects:

Project	**Investment**	**NPV**
Project A	R30 000	4 500
Project B	R25 000	9 800
Project C	R50 000	2 600

QUESTION 2 (continued)

Required:

(a) Calculate the net present value index (NPVI) for each project and advise which project(s) management should invest in. (5)

(b) What are the assumptions of net present value (NPV)? (3)

[8]

QUESTION 3

Sam is in the hospitality industry and wants to take on a new business venture. He is investigating starting his own tour-operating business, which will provide customers with 4x4 safari game drives at luxury lodges in Africa. Sam will need to purchase a 4x4 to the amount of R450 000.

The vehicle can be written off over 5 years for tax purposes, after which time it will be sold for R200 000.

The following information is relevant:

Initial working capital:	R50 000
Tours expected per annum:	60
Price per person per game drive:	R250
Average number of people per game drive:	12
Yearly fixed cost, including depreciation on vehicle:	R180 000
Yearly variable cost:	R60 000

Additional information:

- Depreciation is calculated at 20% per annum on the cost price of the vehicle.
- Weighted average cost of capital (WACC) is calculated at 16%.
- The current tax rate is 28%.
- Net cash flow will increase annually with inflation of 7%.

QUESTION 3 (continued)

Required:

(a) Calculate if Sam should take on his new venture. Give reasons to substantiate your answer. (8)

(b) What other factors should Sam consider before taking on the business venture? (4)

[12]

QUESTION 4

You are faced with the following scenario:

The owners of a well-known photography franchise, Pretty Pictures (Pty) Ltd, are currently negotiating with the owner of another photography company, Snapshot Inc. to buy the company and market it under the brand, Pretty Pictures (Pty) Ltd. The owner of Snapshot Inc. will earn a monthly salary from Pretty Pictures (Pty) Ltd and will still be involved in the operational activities of the company. All the assets and liabilities of Snapshot Inc. will transfer to Pretty Pictures (Pty) Ltd and the previous owner of Snapshot Inc. will have no voting rights in the new company structure.

Required:

(a) Indicate whether the above scenario is a takeover or a merger and give three reasons to substantiate your answer. (4)

(b) Give two reasons why the two companies might consider the merger/takeover beneficial. (2)

(c) Give three reasons why mergers sometimes fail. (3)

(d) What body regulates mergers and takeovers? Name only one. (1)

[10]

QUESTION 5

You are presented with the following financial information of Gama Ltd and Momento Ltd:

	Gama Ltd	Momento Ltd
	Rm	**Rm**
ASSETS		
Non-current assets	**1 550**	**750**
Property, plant and equipment	1 550	750
Investments	**200**	**250**
100 million shares in Momento	200	-
100 million shares in Gama	-	250
Total assets	**1 750**	**1 000**
EQUITY AND LIABILITIES		
Total equity	**1 750**	**1 000**
Issued share capital (ordinary shares of R1 each)	1 000	500
Retained earnings	750	500
	1 750	**1 000**

Additional information:

1. The companies have decided to merge by means of the incorporation of a new company, Robust Ltd.

QUESTION 5 (continued)

2. Robust Ltd will take over the property, plant and equipment (PPE) assets at the following market values for similarly aged assets, which are regarded as fair:

	Rm
Gama Ltd	1 650
Momento Ltd	900

3. Non-current assets do not include any goodwill.

4. The goodwill payable by Robust Ltd for Gama Ltd and Momento Ltd was calculated on the basis of the following information:

	Gama Ltd	**Momento Ltd**
Anticipated future net income per annum	R298 million	R170 million
Fair rate of return on operating assets	12%	14%
Anticipated duration of super profits	3 years	3 years

5. The purchase price will be settled by issuing ordinary shares of R2 each in Robust Ltd. Robust Ltd will not take over inter-company shareholdings.

Required:

Calculate how many shares must be issued to the shareholders of Gama Ltd (excluding Momento Ltd) and Momento Ltd (excluding Gama Ltd). (10)

[50]