GROUP ASSIGNMENT

MBAC 813 - 2019

This assignment covers **textbook** chapters done in MBAC 813 Module

Write a report to answer the following questions related to your Class Case

1 Given the current economic situation, and working from the assumption that assets are currently fully utilised, at what rate do you think the company can grow sustainably over the long term?

NB Arguments must be supported by a sound numeric appraisal of the situation

2 Based on the current financial situation and working from the perspective of sustainable growth consider a scenario where 1) a 40% probability exists that sales will grow in line with the current GDP growth rate as forecasted by the SA Reserve Bank, 2) sales will grow at the sustainable growth rate, and 3) a 20% probability exists that sales growth will be 20% higher than the current sales growth rate as determined for Class case company.

A What do you think, based on the sketched scenario a probable share price may be?

B What strategic financial management advice can you give to manage share price into or to keep it at equilibrium in such a situation?

Specifically consider expected stand-alone and market risk and its impact on required return.

NB Arguments must be supported by a sound numeric appraisal of the situation

3 In your opinion, what would:

A) The optimum capital structure for the Class Case Company be? You are allowed to make assumptions regarding cost of capital and capital structure in line with acceptable business practice?

B) What should the intrinsic value of the company be under a situation where the capital structure is at an optimum?

NB Arguments must be supported by a sound numeric appraisal of the situation

4. If one considers probable cash flows for the Class Case company based on the sustainable growth rate for the next 5 years then on a project evaluation basis using the NPV, IRR and MIRR decision rules what do think an appropriate price would be to pay for the shares.

   From a management point of view motivate why such an assessment might be necessary.

   <u>NB Arguments must be supported by a sound numeric appraisal of the situation</u>

<u>NB: remember to motivate your answers to all the questions above.</u>

<u>Specific instructions:</u>

All explanations and demonstrations must be based on calculus and should be numerically supported.

Keep in mind that company-specific research that is not reflected in the case study may be required.

Assignment length: maximum of 6 pages (font size 12, margins 2.5 cm, letter type Arial).

Detailed financial forecasts and calculations should be attached as addendums. Your assignment (the body of the assignment not the addendum) must be prepared as an executive summary that is academically well supported. This means that you will have to spend time to arrange your assignment such that ‘brief’ but logical and powerful arguments are offered in the assignment.

NB: 1) Nothing beyond the prescribed number of pages will be marked, and 2) students risk losing as much as 50% of their marks if they do not adhere to the font and margin specifications above.