NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF NATURAL RESOURCES AND SPATIAL SCIENCES

DEPARTMENT OF LAND AND PROPERTY SCIENCES

QUALIFICATION: BACHELOR OF PROPERTY STUDIES HONOURS	
QUALIFICATION CODE: 27BPRS	LEVEL: 8
COURSE CODE: PFN810S	COURSE NAME: PROPERTY FINANCE 2
SESSION: JULY 2019	PAPER: THEORY
DURATION: 2 HOURS	MARKS: 100

SECOND OPPORTUNITY/SUPPLEMENTARY EXAMINATION QUESTION PAPER	
EXAMINER(S)	MR V. KANGOTUE
MODERATOR:	MR M. KABISA

INSTRUCTIONS
1. Read the entire question paper before answering the Questions. 2. Please write clearly and legibly! 3. The question paper contains a total of 4 questions. 4. You must answer **ALL QUESTIONS.** 5. Make sure your Student Number is on the EXAMINATION BOOK(s).

PERMISSIBLE MATERIALS

I. Non-programmable scientific calculator

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including this front page)

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SECOND OPPORTUNITY/SUPPLEMENTARY MEMORANDUM	
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Question 1

a) If dividends on a common stock are expected to grow at a constant rate forever, and if you are told the most recent dividend paid, the dividend growth rate, and the appropriate discount rate today, you can calculate: *(Choose the correct Answers)* (2)

i.) The price of the stock today
ii.) The dividend that is expected to be paid ten years from now
iii.) The appropriate discount rate ten years from now

b) Which of the following statements is true? *(Choose the correct Answers)* (2)

i.) The dividend growth model holds only if the dividend growth rate exceeds the stock's required return.
ii.) An increase in the dividend growth rate will increase a stock's market value, all else the same.
iii.) An increase in the required return on a stock will increase its market value, all else the same.

c) Which of the following is false regarding the differences between debts and common stock? (2)

i.) Equity is ownership in a firm but debt is not.
ii.) Stockholders have voting power while creditors usually do not.
iii.) Periodic payments made to either class of security are tax deductible for the issuer.

d) Preferred stock is much like debt in that: *(Choose the correct Answers)* (2)

i.) The payments on both are tax-deductible to the issuing firm.
ii.) Neither security is protected in the event of non-payment of promised cash flows.
iii.) Neither security participates in any unexpected profits the firm generates.

e) Super Computer Company's stock is selling for N$150 per share today. It is expected that this stock will pay a dividend of 8 dollars per share, and then be sold for N$200 per share at the end of one year. Calculate the expected rate of return for Super Computer Company's stock. (2)

f) Kangotue valuations Company's stock is selling for N$100 per share today. It is expected that this stock will pay a dividend of 5 Namibian dollars per share, and then be sold for N$110 per share at the end of one year. Calculate the expected rate of return for Super Computer Company 's stock.
(2)

g) PC Company stockholders expect to receive a year-end dividend of N$10 per share and then be sold for N$122 dollars per share. If the required rate of return for the stock is 20%, what is the current value of the stock? (2)

h) Explain in brief the following investment appraisal methods/techniques:

i.) Payback Period (2)
ii.) Return on Capital Employed (2)
iii.) Net Present Value (2)

[20]

Question 2

a) What is the main role of the stock exchange in the Namibian economy? (2)

b) Imms Mathews Incorporated is contemplating on using the Namibian Stock Exchange to raise capital for the company. As a financial manager of Imms Mathews Incorporated advise on the advantages of using the Stock Market. (23)

[25]

Question 3

a) Critically examine seven (7) basic principles in determining the financial structure of a company? (7)

b) State three reasons why understanding property finance is important. (3)

(10)

Question 4

(a) The table below indicates the cost of cash flows of four projects, A, B, C, and D, Using the Payback Period decision model, determine which projects to accept or reject, given a three-year cut-off period for recapturing the initial cash outflow. Assume that the cash flows are equally distributed over the year for Payback Period calculations. Kindly show all your working. (20)

Table 1- Estimated cash flows for project A, B, C and D

Projects Cost :	A	B	C	D
Amounts in N$	10,000	25,000	45,000	100,000

Cash Flows (Years)	***A***	***B***	***C***	***D***
1	4,000	2,000	10,000	40,000
2	4,000	8,000	15,000	30,000
3	4,000	14,000	20,000	20,000
4	4,000	20,000	20,000	10,000
5	4,000	26,000	15,000	$0
6	4,000	32,000	10,000	$0

(b) Kukuri and Sons Real Estate PLC, your client, wishes to evaluate two investment options in the entertainment industry. Each option has a 5-year life with the estimated cash flows as indicated in Table 2 below.
Using a combination of the NPV and IRR decision criteria above, what advice would you give to your client if market rates of return are around 12% p.a.? (15)

Table 2 – Estimated project cash flows Hot Chillies Real Estate PLC.

Year	**Project A - ATCF**	**Project B - ATCF**
0	-(1,800,000.00)	-(1,500,000.00)
1	+400,000.00	+350,000.00
2	+480,000.00	+400,000.00
3	+500,000.00	+450,000.00
4	+540,000.00	+480,000.00
5	+650,000.00	+500,000.00

Using a combination of the NPV and IRR decision criteria above, what advice, would you give to your client if market rates of return were around 12% p.a.? (15)

(c) Using the Payback techniques decision criterion and Projects E, F, G, and H in the below table with a cut-off period of three years, which projects would you accept and Reject? (5)

Table 3 – Estimated cash flows for project E, F,G and H

Projects	***E***	***F***	***G***	***H***
Cost	$40,000	$250,000	$75,000	$100,000
Cash Flow Year One	$10,000	$40,000	$20,000	$30,000
Cash Flow Year Two	$10,000	$120,000	$35,000	$30,000
Cash Flow Year Three	$10,000	$200,000	$40,000	$30,000
Cash Flow Year Four	$10,000	$200,000	$40,000	$20,000
Cash Flow year Five	$10,000	$200,000	$35,000	$10,000
Cash Flow Year Six	$10,000	$200,000	$20,000	$0

(d) Mathew Shikongo Incorporated is debating using Payback Period versus Discounted Payback Period for two building projects; one in Ovitoto and the other in Okombahe. The Information Officer has submitted a new computer project costing N$15,000. The cash flows will be N$5,000 each year for the next five years. The cut-off period used by Mathew Incorporated is three years. The Information Officer states that it does not matter what model the company uses for the decision, it is clearly an acceptable project. Demonstrate to the Information Officer that the selection of the model does matter. (5)

(45)

END OF EXAM (ALL THE BEST)