

FIN3101B/FIN3701B CORPORATE FINANCE

Session: Semester II, 2020/2021 (11 January 2021 – 16 April 2021)

Instructor

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Course Objectives

This course aims to introduce fundamental concepts and analytical knowledge of Corporate Finance. Cases and practical examples will be used to illustrate the concepts taught.

By the end of the module, students should be able to:

- appraise investments and conduct project analysis;
- apply the valuation methods (DCF, DDM, and Relative Valuation) to evaluate real-life companies for capital raising and possible acquisition;
- analyze the impact of capital structure on the cost of capital and project value;
- understand capital structure decisions and payout policies.

Textbook and Reference

Main Textbook: (RWJJ)

Corporate Finance
International Student Edition, 2019 (12th Edition)
Ross, Westerfield, Jaffe, and Jordan
McGraw-Hill Education

Assessments Methods

Class Participation	10%
2 Assignments/Tutorials (group basis)	15%
1 Case study (group basis)	20%
1 Critique (group basis)	5%
1 Case Study/Project	10%
Test 1	25%
Test 2	25%
Total	<hr/> 100%

Test

Many of the questions require the use of financial calculators, which are allowed. Please consult instructor if you are not sure about the type of financial calculator required/allowed. The test may consist of multiple-choice questions, quantitative and open-ended questions that examine the total understanding of the student with respect to the course materials.

Please note the dates for the test – there will be no make up.

Test 1: Saturday March 13, 2021

Test 2: Saturday, April 10, 2021

Class Participation

Students are expected to have done pre-class readings and be actively involved in class discussions. Extra credit will be granted to those who can contribute towards class discussions and the discussion forum. The discussion by the non-presenting group members will be an important part of the class participation grade. Note that this will be evaluated on an individual basis.

Case Assignment

Each class will be divided into (up to) 10 groups for case assignments. We will cover 3 cases during the semester. The first two cases will have advance write up due by the primary and non-primary groups as described below. Groups will be formed in the third week of class.

Out of the ten groups, there will be five primary groups for each case. Groups 1A, 1B, 1C, 1D & 1E will take on the primary responsibility for case 1; groups 2A, 2B, 2C, 2D & 2E for case 2. The five primary groups for the case will each submit a comprehensive report **NOT exceeding an overall total of 15 pages**, including texts, tables, and appendices, by the due date. The report must be typewritten on A4 size paper with double-spacing and font size 11. The report will be made available to the class.

Case Number	Presenting (Primary) Group	Critique (Non-Primary) Group
1	1A	2A
1	1B	2B
1	1C	2C
1	1D	2D
1	1E	2E
2	2A	1A
2	2B	1B
2	2C	1C
2	2D	1D
2	2E	1E

The five non-primary groups are each required to submit a short critique of one of the reports. The critique is limited to **one page** (A4 sized, font 11, double spacing). During the case presentation, the five groups with primary responsibility will be given 20 minutes to present

their analysis. All students are expected to participate in the case discussions actively. The assignment of the non-primary groups is as follows:

For the third case/project, however, students are expected to work on questions during the class with no advance worked required except for reading the case/project. This case will be graded on a pass or needs improvement basis.

At the end of the term, each group member will also assign a peer grade to other members of the same group. This will form part of the assessment for group members. Thus, due to differences in peer grading, a given group member may obtain different grades from other members in the same group.

Tutorial and Discussion

All students are expected to contribute to the tutorial assignments. Each tutorial consists of a number of questions and/or mini-cases related to topics that are covered in class. These questions may require downloading and analysis of financial data. The group membership is the same as that for case study.

Submission Policy

Tutorials, case reports and critiques are done on a group-basis. They must reach the instructor by the due date and time. Late submissions will be penalized.

Academic Honesty and Plagiarism

Academic integrity and honesty is essential for the pursuit and acquisition of knowledge. The University and School expect every student to uphold academic integrity & honesty at all times. Academic dishonesty is any misrepresentation with the intent to deceive, or failure to acknowledge the source, or falsification of information, or inaccuracy of statements, or cheating at examinations/tests, or inappropriate use of resources.

Plagiarism is 'the practice of taking someone else's work or ideas and passing them off as one's own' (The New Oxford Dictionary of English). The University and School will not condone plagiarism. Students should adopt this rule - You have the obligation to make clear to the assessor which is your own work, and which is the work of others. Otherwise, your assessor is entitled to assume that everything being presented for assessment is being presented as entirely your own work. This is a minimum standard. **In case of any doubts, you should consult your instructor.**

Additional guidance is available at:

<http://www.nus.edu.sg/osa/resources/code-of-student-conduct>

Course Content:

1. Introduction to Corporate Finance
 - Separation of ownership and control
 - Agency costs
 - Firm and the financial markets

2. Risk and Return
 - Review of portfolio theory
 - CAPM and APT
 - Estimating cost of equity and cost of debt
 - Risk, return and cost of equity

3. Capital Budgeting
 - Decision trees
 - Sensitivity analysis
 - Scenario analysis
 - Break-even analysis
 - Real options

4. Capital Structure
 - Efficient market hypothesis
 - Raising capital
 - Venture capital and IPO
 - Rights issue
 - Theories of capital structure
 - Tax effects
 - Limits to the use of debt
 - Costs of financial distress
 - Is there an optimal capital structure?
 - Interactions of Investments and Financing: APV, FTE, WACC

5. Mergers and Acquisitions
 - Merger motives
 - Types of acquisitions
 - Value of corporate control
 - Merger valuations
 - Empirical evidence

6. Dividend Policy
 - Is dividend policy relevant?
 - Share repurchase and dividend policy

Schedule

Week	Topic and Readings
Week 1: January 11	Topic 1: Introduction <ul style="list-style-type: none">• Course Overview• Corporation and Agency Issues• Review of Risk and Return• Readings: RWJJ Chapter 1, 11, 12
Week 2: January 18	Topic 2: Capital Budgeting <ul style="list-style-type: none">• Review of Portfolio Theory and CAPM• Risk, return, and cost of capital• Sensitivity, scenario and break-even analysis• Real Options• Readings: RWJJ Chapter 13, 7, 23
Week 3: January 25	Topic 3: Capital Structure I <ul style="list-style-type: none">• Raising capital• Issuing securities• Venture capital and IPO• Rights issue• Readings: RWJJ Chapters 15, 20 <p>Assignment 1 will be available by <u>Friday, January 29, 6 pm.</u></p>
Week 4: February 1	Topic 4: Capital Structure II <ul style="list-style-type: none">• Theories of capital structure• Tax effects• Readings: RWJJ Chapter 16 <p>Assignment 1 due by <u>Friday, February 5, 6 pm.</u></p>

<p>Week 5: February 8</p>	<p>Topic 5: Capital Structure III</p> <ul style="list-style-type: none"> • Limits to the use of debt • Costs of financial distress • Agency costs • Is there an optimal capital structure? • Interactions between Investments and Financing • Readings: RWJJ Chapters 17, 18 <p>Discussion of Assignment 1</p> <p>Case 1 will be available by <u>Friday, February 12, 6 pm.</u></p>
<p>Week 6: February 15</p>	<p>Topic 6: Mergers and Acquisitions</p> <ul style="list-style-type: none"> • Merger motives • Types of acquisitions • Value of corporate control • Merger valuations • Empirical evidence • Readings: RWJJ Chapter 29
<p>Recess Week</p>	<p>Case 1 submission (Groups 1A, 1B, 1C) due by <u>Wednesday, February 24, 6 pm.</u> All reports will be made available to the entire class.</p> <p>Case presenters (Groups 1A, 1B, 1C) to also submit their presentation slides by <u>Saturday, February 27, 6 pm.</u></p> <p>One-page critique for Case 1 due by <u>Monday, March 1, 6 pm.</u></p>
<p>Week 7: March 1</p>	<p>Case 1 discussion and presentations</p> <p>Practice problems will be available by <u>Friday, March 5, 6 pm.</u></p>
<p>Week 8: March 8</p>	<p>Test 1 review</p> <p>Discussion of practice problems</p> <p>Test date: <u>Saturday, March 13</u></p> <p>Exact time to be confirmed.</p> <p>Assignment 2 will be available by <u>Friday, March 12, 6 pm.</u></p> <p>Case 2 will be available by <u>Friday, March 12, 6 pm.</u></p>

Week 9: March 15	Topic 7: Dividend Policy <ul style="list-style-type: none">• Is dividend policy irrelevant?• Share repurchase and dividend policy• Readings: RWJJ Chapter 19 Assignment 2 due by <u>Friday, March 19, 6 pm.</u> Case 3 will be available by <u>Friday, March 19, 6 pm.</u>
Week 10: March 22	Discussion of Assignment 2 Discussion of Test 1 Elective topics Case 2 submission (Groups 2A, 2B, 2C) due by <u>Wednesday, March 24, 6 pm.</u> All reports will be made available to the entire class. Case presenters (Groups 2A, 2B, 2C) to also submit their presentation slides by <u>Saturday, March 27, 6 pm.</u> One-page critique for Case 2 due by <u>Monday, March 29, 6 pm.</u>
Week 11: March 29	Case 2 discussion and presentations Practice problems for test 2 will be available by <u>Friday April 2, 6 pm.</u>
Week 12: April 5	Test 2 review Discussion of practice problems Test Date: <u>Saturday, April 10</u> Exact time to be confirmed.
Week 13: April 12	Case/Project 3 in-class group work and discussion