

## FIN3701B/FIN3101B CORPORATE FINANCE

Session: Semester I, 2021/2022 (9 August 2021 – 12 November 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  
Twelfth Edition, 2019  
Ross, Westerfield, Jaffe and Jordan  
ISBN 978-1-260-09187-8  
McGraw-Hill Education

### Assessments Methods

|  |             |
|--|-------------|
| Class Participation                              | 10%         |
| Tutorial Assignments (group basis)               | 15%         |
| 1 Case study (group basis)                       | 20%         |
| 2 Critiques (group basis)                        | 10%         |
| Test 1 (October 2021) and Test 2 (November 2021) | 45%         |
| Total  | <u>100%</u> |

**Please note the dates for the Tests. There will be no make-up.**

### Open Book 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.

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### 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.

### Case Assignment

Each class will be divided into (up to) 9 groups for case assignments. We will cover 3 cases during the semester. Out of the 9 groups, there will be 3 primary groups for each case. Groups 1A, 1B & 1C will take on the primary responsibility for case 1; groups 2A, 2B & 2C for case 2 and groups 3A, 3B & 3C for case 3. The 3 primary groups for the case will each submit a comprehensive report **NOT exceeding overall total of 10 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. It is due by **12nn on Monday** of the week before the case presentation. The report will be made available to the class.

The 6 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) and must be submitted by **12nn on Friday** of the week before the case presentation. During the case presentation, the 3 groups with primary responsibility will be given 25 minutes each to present their analysis. All students are expected to actively participate in the case discussions. The assignment of the non-primary groups is as follows:

| Case Number | Presenting (Primary) Group | Critique (Non-Primary) Group |
|-------------|----------------------------|------------------------------|
| 1           | 1A                         | 2A, 3A                       |
| 1           | 1B                         | 2B, 3B                       |
| 1           | 1C                         | 2C, 3C                       |
| 2           | 2A                         | 1A, 3A                       |
| 2           | 2B                         | 1B, 3B                       |
| 2           | 2C                         | 1C, 3C                       |
| 3           | 3A                         | 1A, 2A                       |
| 3           | 3B                         | 1B, 2B                       |
| 3           | 3C                         | 1C, 3C                       |

Case assignment and guidelines will be made available two weeks before the due date.

### **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. The assignments will be discussed in class as indicated in the schedule.

### **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?
  
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

**FIN3101B/FIN3701B CORPORATE FINANCE****Semester I 2021/2022****Schedule**

| <b>Week</b>                    | <b>Topic and Readings</b>   |
|--------------------------------|---|
| <b>Week 1:<br/>August 9</b>    | <b>Topic 1: Introduction</b> <ul style="list-style-type: none"><li>• Course Overview</li><li>• Corporation and Agency Issues</li><li>• Review of Risk and Return</li><li>• Readings: RWJ Chapter 1, 10, 11, 12</li></ul>  |
| <b>Week 2:<br/>August 16</b>   | <b>Topic 2: Capital Budgeting</b> <ul style="list-style-type: none"><li>• Review of Portfolio Theory and CAPM</li><li>• Risk, return, and cost of capital</li><li>• Sensitivity, scenario and break-even analysis</li><li>• Real Options</li><li>• Readings: RWJ Chapter 13, 7, 23</li></ul>  |
| <b>Week 3:<br/>August 23</b>   | <b>Topic 3: Capital Structure I</b> <ul style="list-style-type: none"><li>• Raising capital</li><li>• Issuing securities</li><li>• Venture capital and IPO</li><li>• Rights issue</li><li>• Readings: RWJ Chapters 14, 20</li></ul>   |
| <b>Week 4:<br/>August 30</b>   | <b>Topic 4: Capital Structure II</b> <ul style="list-style-type: none"><li>• Theories of capital structure</li><li>• Tax effects</li><li>• Readings: RWJ Chapter 16</li></ul>   |
| <b>Week 5:<br/>September 6</b> | <b>Topic 5: Capital Structure III</b> <ul style="list-style-type: none"><li>• Limits to the use of debt</li><li>• Costs of financial distress</li><li>• Agency costs</li><li>• Is there an optimal capital structure?</li><li>• Readings: RWJ Chapters 17, 18</li></ul> <b>Assignment due by <u>12nn Wednesday Sept 8</u>: Tutorial 1</b> |

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| <p><b>Week 6:</b><br/><b>September 13</b></p> | <p><b>Topic 6: Mergers and Acquisitions</b></p> <ul style="list-style-type: none"> <li>• Merger motives</li> <li>• Types of acquisitions</li> <li>• Value of corporate control</li> <li>• Merger valuations</li> <li>• Empirical evidence</li> <li>• Readings: RWJ Chapter 29</li> </ul> <p>Case 1 will be available by 12nn on September 13.</p> <p>Discussion of Tutorial 1</p>   |
| <p><b>Recess Week</b></p>                     | <p>from September 18 to September 26</p> <p>Assignment due by <u>12nn Wednesday Sept 23</u>: Tutorial 2</p>   |
| <p><b>Week 7:</b><br/><b>September 27</b></p> | <p><b>Topic 7: Dividend Policy</b></p> <ul style="list-style-type: none"> <li>• Is dividend policy irrelevant?</li> <li>• Share repurchase and dividend policy</li> <li>• Readings: RWJ Chapter 19</li> </ul> <p>Discussion of Tutorial 2</p> <p>Assignment due by <u>12nn Monday Sept 27</u>: Case 1. Case reports will be made available to the whole class.</p> <p>Assignment due by <u>12nn Friday Oct 1</u>: One-page Critique of Case 1 from all non-presenting student groups.</p> |
| <p><b>Week 8:</b><br/><b>October 4</b></p>    | <p>Test 1: October 9, 2021, 4pm to 5:30pm (to be confirmed)</p>   |
| <p><b>Week 9:</b><br/><b>October 11</b></p>   | <p>Presentation and discussion of Case 1</p> <p>Assignment due by <u>12nn Wednesday Oct 13</u>: Tutorial 3</p>  |
| <p><b>Week 10:</b><br/><b>October 18</b></p>  | <p>Assignment due by <u>12nn Monday Oct 18</u>: Case 2. Case reports will be made available to the whole class.</p> <p>Assignment due by <u>12nn Friday Oct 22</u>: One-page Critique of Case 2 from all non-presenting student groups.</p>   |

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| <b>Week 11:</b><br><b>October 25</b> | <b>Presentation and discussion of Case 2</b><br><b>Assignment due by <u>12nn Monday Oct 25</u>: Case 3. Case reports will be made available to the whole class.</b><br><b>Assignment due by <u>12nn Friday Oct 29</u>: One-page Critique of Case 3 from all non-presenting student groups.</b> |
| <b>Week 12:</b><br><b>November 1</b> | <b>Test will cover all topics.</b><br><b>Test Date: November 6, 2021 (4pm to 6pm) (to be confirmed)</b>  |
| <b>Week 13:</b><br><b>November 8</b> | <b>Presentation and discussion of Case 3</b>   |