

FIN3101B/FIN3701B CORPORATE FINANCE

Last Update: 27 November 2021

Session: Semester II, 2021/2022 (10 January 2022 – 16 April 2022)

Instructor

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Consultation: appointment through the “Consultation” tool on LumiNUS. All consultations would be held via Zoom.

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

I will be using slides for presentation. Copies of the presentation slides used in class will be posted on LumiNUS. The slides will be PDF files. The lecture slides are self-contained. Thus, no textbook is required. For those of you who wish to use a textbook in addition to the slides, I recommend:

Main Textbook: (RWJJ)

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

<u>Assessments Methods</u>	
Class Participation	10%
1 Case Study (group basis)	20%
2 Critique (group basis)	10%
Midterm Test	20%
Final Exam	40%
Total	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. Details on how the test is conducted will be announced later in the semester.

Please note the dates for the test – there will be no makeup. The exact test time will be announced later. Students not participating in a test will receive a zero mark for that test. Exceptions will only be granted according to NUS policies and will require formal verification of the reason for absence by the BBA Office. In such exceptional cases, a substitute form of assessment may be given.

Test: Saturday, March 12, 2022, 2:00-5:00 pm
Final Exam: TBD

Class Arrangement

Classes will, unless otherwise advised, be delivered in a normal face-to-face (F2F) classroom setting. Students who are not able to join the F2F class due to Stay-Home Notices, being in quarantine, and the likes, will join the class via Zoom instead. For details, please refer to the Course Policies on Hybrid Teaching, which will be constantly updated based on the prevailing safety control measures.

Students are responsible for all missed work, regardless of the reason for absence. It is also the absentee's responsibility to get all missing notes or materials.

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.

Cases

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 12 pages** including texts, tables and appendices by the due date. The page limit excludes the front cover and the references page. 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

FIN3101/FIN3701 CORPORATE FINANCE
Semester II 2020/2021

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.

At the end of the term, you can assign a peer grade to other members of the same group by filling out a form. Filling out the form is **optional**, and you don't need to. Peer grading might affect group members' grades. Due to differences in peer grading, a given group member may obtain different grades from other members in the same group.

Tutorial and Discussion

Several tutorials with their answers will be made available during the semester. Please note that you **don't need to submit** your analysis. However, please work on the tutorials during the semester.

Submission Policy

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.

Communication

The preferred way to communicate with me is by email. For consultation scheduling, we will use the "Consultation" tool on LumiNUS to streamline the process. All consultations would be held via Zoom. I will have fixed consultation slots during the semester. You need to book a time slot for consultation at least one day in advance. Send me an email if the available time slots don't work with your availability in the next three working days. I will have more slots available during the test weeks.

Students are encouraged to always send me comments and suggestions that may help the class to learn better.

Students are expected to check LumiNUS weekly for announcements.

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
 - 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
 - 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 10	Topic 1: Introduction <ul style="list-style-type: none">• Course overview• Corporation and agency issues• Review of risk and return• Readings: RWJJ Chapter 1, 10, 11, 12
Week 2: January 17	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
Week 3: January 24	Topic 3: Capital Structure I <ul style="list-style-type: none">• Raising capital• Issuing securities• IPO• Rights issue• Readings: RWJJ Chapters 14, 20
Week 4: January 31	Topic 4: Capital Structure II <ul style="list-style-type: none">• Theories of capital structure• Tax effects• Readings: RWJJ Chapter 16
Week 5: February 7	Topic 5: Capital Structure III <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>Week 6: February 14</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>Assignment due by <u>12nn Monday February 28</u>: Case 1. Case reports will be made available to the whole class.</p> <p>Assignment due by <u>12nn Friday March 4</u>: Case 1 presentation slides. Presenting groups need to submit their presentation slides.</p> <p>Assignment due by <u>12nn Friday March 4</u>: One-page Critique of Case 1 from all non-presenting student groups.</p>
<p>Week 7: February 28</p>	<p>Presentation and discussion of Case 1</p>
<p>Week 8: March 7</p>	<p>Midterm Test Date: March 12, 2pm to 5pm</p>
<p>Week 9: March 14</p>	<p>Topic 7: Dividend Policy</p> <ul style="list-style-type: none"> • Is dividend policy irrelevant? • Share repurchase and dividend policy • Readings: RWJ Chapter 19
<p>Week 10: March 21</p>	<p>Assignment due by <u>12nn Monday March 21</u>: Case 2. Case reports will be made available to the whole class.</p> <p>Assignment due by <u>12nn Friday March 25</u>: Case 2 presentation slides. Presenting groups need to submit their presentation slides.</p> <p>Assignment due by <u>12nn Friday March 25</u>: One-page Critique of Case 2 from all non-presenting student groups.</p>

Week 11: March 28	Presentation and discussion of Case 2 Assignment due by <u>12nn Monday March 28</u>: Case 3. Case reports will be made available to the whole class. Assignment due by <u>12nn Friday April 1</u>: Case 3 presentation slides. Presenting groups need to submit their presentation slides. Assignment due by <u>12nn Friday April 1</u>: One-page Critique of Case 3 from all non-presenting student groups.
Week 12: April 4	Presentation and discussion of Case 3
Week 13: April 11	Special Topics