(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE :   **BCF 407**

COURSE TITLE :   **SECURITY ANALYSIS AND SECURITIZATION**

DATE: 12TH NOVEMBER 2020   **TIME:9.00AM-11.00AM**

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. ▶

QUESTION ONE.

(a) Briefly describe the procedure for buying and selling of shares in a financial market.

(10 Marks).

(b) AZ LTD is a Soap manufacturer based in Nairobi Kenya. From its financial reports covering the period 2016-17 just released, the rate of return on its stock for the past five years is 16 percent. This rate of return is expected to continue for the next 6 years. Thereafter the rate of return is expected to have a growth rate of 12 percent indefinitely. The dividend paid for the year 2016-17 is Kshs 20 .

Equity investors require a return of 22 Percent. AZ Corporation's stock is currently selling for shs 18.

Required.

(i) Calculate the intrinsic value of Apex's stock according to the two-stage model.

(12 Marks).

(ii) Should Apex hold, buy or sell its stock? Give reasons for your answer.

(2 Marks).

(c) Briefly discuss the qualitative factors that affect a company's stock performance.

(6 Marks).

QUESTION TWO.

(a) What is meant by Fundamental analysis of a stock? How does it differ from technical analysis? **(8 Marks).**

(b) In the opinion of Michael Porter of Harvard Business School, five competitive forces are known to decide the attractiveness and profitability of an industry.

Briefly explain these competitive forces. **(12 Marks).**

QUESTION THREE.

Sarah an investor based in Eldoret Kenya has just obtained the following information about Haco Ltd's Call Option:

- Haco's current stock price Kshs 60.
- The Exercise price is Kshs 55 for a six month option.
- The Standard deviation is 48 percent.
- Risk free rate of interest is assumed to be 12 percent.

Required.

a) Determine the value of the call option using the Black -Scholes option valuation model.

(15 Marks).

b) If the current value of a call on Haco's stock is shs 20, what should Sarah do to maximize her monetary returns? **(5 Marks).**

QUESTION FOUR.

a) A 6 year treasury bond has the following characteristics:

- 8 percent annual Coupon rate.
- Maturity value – Kshs 100,000.
- Market Price - Kshs 106,000.

Required.

Calculate the following:

(i) The Bond's Yield to Maturity (YTM). - **(4 Marks).**

(ii) The duration of the bond. - **(6 Marks).**

(b) Discuss the term structure of interest rates and explain the theories underpinning the same.
-            **(10 Marks).**

QUESTION FIVE.
Write short notes on the following:
  (a) Role of a broker in a securities trading and exchange market. – **(5 marks).**
  (b) The Primary Securities Market.   -   **(5 Marks).**
  (c) Efficient Market Hypothesis   -   **(5 Marks).**   -
  (d) Determinants of Interest rates   -   **(5 Marks).**