(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2016/2017 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 407

COURSE TITLE: SECURITY ANALYSIS AND SECURITIZATION

DATE: 26/09/2017   **TIME** : 3.00 P.M – 5.00 P.M

INSTRUCTIONS TO CANDIDATES
Answer Question One in Section A and any other (2) Questions in Section B

TIME: 2 Hours

SECTION A

1. (a) Explain the meaning of the following :

i.	Security's intrinsic value	-	(2 Marks)
ii.	Short sale	-	(2 Marks)
iii.	Yield to call	-	(2Marks)
iv.	Repurchase agreements	-	(2 Marks)
v.	Limit order	-	(2 Marks)

(b) The current dividend on an equity share of TKO Ltd is shs 2.00. TKO Ltd is expected to enjoy an above normal growth rate of 30 percent for 5 years. Thereafter, the growth rate will fall and stabilize at 10 percent. Equity investors require a return of 14 percent from TKO Ltd's stock.

What is the intrinsic value of the equity share of TKO LTD? (8 Marks).

(c) Alexander Company Ltd has outstanding an 8 percent ,4 year Kshs 1,000 par value bond on which interest is paid annually.

i.) If the market required rate of return is 15 percent, what is the market value of the bond? (4 Marks).

ii). What would be its market value if the market required return dropped to 12 percent? (4 Marks).

iii). If the coupon rate were 15 percent instead of 8 percent, What would be the market value (under part (i)). (4 Marks).

SECTION B.

2. Write short notes on the following:

i.)	Money market instruments.	(5 Marks).
ii.)	Mutual funds	(5 Marks).
iii.)	Procedure for selling shares	(5 Marks).
iv.)	Role of stock brokers in securities trading	(5 Marks).

3.

a) The following information is available on a bond:

Face Value: Shs. 1,000.

Coupon rate: 12 per cent payable annually.

Current market price: shs 1,100

Required:

What is the duration of the bond?(Use the approximate formula for calculating the yield to maturity. (12 Marks).

b) Consider the following data for 4 shares for two years, the base year and year t.

Share	Price in base year Shs	Price in year t Shs	Price relative 2/1 x 100	No. of outstanding shares shs'Millions	Market Capitalisation in the base year (1x4)	Market Capitalisation in year t (2x4)
	1	2	3	4	5	6
A	40	30	75	3	120	90
B	60	75	125	12	720	900
C	20	40	200	6	120	240
D	75	90	120	5	375	450
	195	235	520		1335	1680

Required:

i.) The price weighted index for year t   -   (4 Marks).

ii.) The equal weighted index for year t   -   (4 Marks).

4. Describe in detail the life cycle stages every industry undergoes in their development.

(20 Marks).

5.

a.) Nakuru Converters Ltd's stock is expected to grow at the rate of 5 per cent per annum. The dividend expected on Nakuru converters equity share a year hence is shs 3.00. This too will grow at 8 percent per annum.

What price will you put on it if the required rate of return for this share is 15 per cent?

(10 Marks).

b.) Describe the procedure for selling shares in a securities market. (10 Marks).