



(*Knowledge for Development*)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2019/2020 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

SPECIAL-SUPPLEMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE : BCF 407

COURSE TITLE : SECURITY ANALYSIS AND SECURITIZATION

DATE: 10TH FEBRUARY,2021

TIME: 11.00AM – 1.00PM

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) Distinguish between investment and speculation. - (10 Marks).
- (b) The Stock Price for Nakuru Holdings Ltd. on 23rd October 2018 is Kshs 1,144 and the owner of the share has entered into a call option agreement for six months at a strike price of shs 1,200. The risk free rate of interest and compounded standard deviation are assumed to be 11 percent and 50 percent respectively.

Required: Calculate the Value of the call option according to The Black Scholes's Option Valuation model. (15 Marks).

- (c) Briefly explain the mechanism of Fundamental analysis using Top- down approach. (5 Marks).

QUESTION TWO.

Explain the factors that have the most significant effect on an industry's earnings. (20 Marks).

QUESTION THREE.

- (a) XYZ Ltd has outstanding Shs 100,000 face value bond with a 14 percent coupon rate and 3 years remaining until final maturity. Interest payments are made semi – annually.

Required.

What value would you place on this bond if your nominal annual required rate of return is?

- (i) 11 percent. - (4 Marks).
(ii) 134percent. - (4 Marks).
(iii) 16 percent. - (4 Marks).
- (b) Discuss the risks to which debt instruments are subject to. - (8 Marks).

QUESTION FOUR.

Write short notes on the following:

- (a) Pure expectation theory of interest. - (5 Marks).
(b) Rights issue. - (5 Marks).
(c) Pioneering stage (of industry life cycle). - (5 Marks).
(d) Yield Curve. - (5 Marks).

QUESTION FIVE.

- (a) (i) The Dividend Discount Model is anchored on certain assumptions. Briefly explain them. (5 Marks).

(ii) The expected dividend per share on the equity share of BAT Ltd is Kshs 5.00. The dividend per share of BAT Ltd has grown over the past five years at the rate of 7 percent per year. This growth rate will continue in future. Further the market price of the equity share of BAT Ltd too is expected to grow at the same rate.

Required.

Calculate the intrinsic value of the equity share of BAT Ltd if the required rate of return is 18 percent. (5 Marks).

- (b) Briefly explain the procedure for selling shares in a securities market. (10 Marks).