



(*Knowledge for Development*)  
**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE : BCF 407**

**COURSE TITLE : SECURITY ANALYSIS AND SECURITIZATION**

**DATE: 10<sup>TH</sup> JANUARY, 2022**

**TIME: 8.00AM – 10.00AM**

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**INSTRUCTIONS TO CANDIDATES**

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

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20 marks** each.

TIME: 2 HOURS

**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).