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FIN 203

Corporate Finance

Trimester 2, 2016

Assessment 2 Instructions

Assessment 2 consists of 2 parts and is **30%** of the unit grade.

1. Assessment 2 is to be completed in groups, consisting of **4-6 members**.
2. Group Written Assignment is 15% (**Due Sunday, Week 10, September 25th 2016 by 11 pm AEST**) **Please submit the Assignment Electronically**
 - It is due 11 pm Australian Eastern Standard Time (AEST)– if you are in Adelaide you need to make sure you submit at the right time. I.e. in Adelaide it is due 10:30 pm.
 - The written part of your assignment will be put through Turnitin and any plagiarism will be traced and penalised.
 - All relevant calculations should be included. You may insert **well formatted** Excel spreadsheet calculations.
3. Group Presentation is 15% (**Due in Week 11**)

This document contains:

1. Part 1: Group Written Assignment Questions and Instructions
2. Part 2: Group Presentation Question and Instructions
3. Commonly asked questions about Assignment Part 1 and 2
4. Template for recording group meetings

Part 1: Group Written Assignment

Task Description

Length: 1000-2500 words

Due: Sunday, September 25th 1100 pm AEST

How to submit: Under “Assessments” tab on the FIN 203 portal homepage.

- Please submit the Assignment electronically on the portal

As part of this assessment you are required to conduct your own research of market and financial data online.

1. Evidence of Group Work [10 marks]

Please see **template for group meeting**. Each group must provide 3 brief records of group meetings as part of the assignment. These briefly list who was present at meetings as well as tasks and contributions.

- Completing this table
- Please note that all group members need to contribute equally to the task.
- If a group member does not contribute to the task, the group’s meeting minutes can be used as evidence to demonstrate this. The student’s mark can be reduced by the lecturer if they consider that there is sufficient evidence that they did not contribute.

2. Written assignment [90 marks]

Consider the sources below, access other relevant resources and answer the following questions.

Source 1: 2016 Full Year Results were released on August 24, 2016.

<http://www.qantasnewsroom.com.au/media-releases/qantas-group-full-year-result-2016/>

Highlights

- Record underlying profit before tax: \$1.53 billion, up 57%
- Record statutory profit before tax: \$1.42 billion, up 80%
- Record results for Qantas Domestic, Qantas International, Jetstar Group, Qantas Loyalty

- Near-doubling of earnings per share: 49c, up 24c
- Return on invested capital: 23%, up 6.5 points
- Operating cash flow: \$2.8 billion, up 38%
- Net free cash flow: \$1.7 billion
- \$500m shareholder return: fully-franked 7c per share ordinary dividend and on market share buy-back
- Additional cash bonus totalling \$75 million for 25,000 non-executive employees
- Continued investment in aircraft cabins and wi-fi

Source 2: Qantas preliminary annual report 2016.

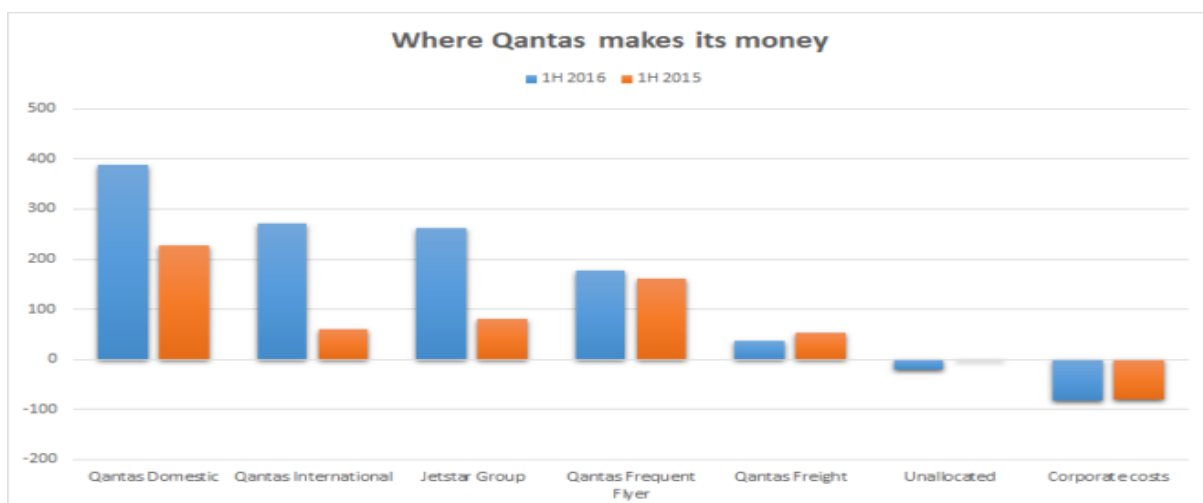
<http://investor.qantas.com/FormBuilder/Resource/module/doLLG5ufYkCyEPjF1tpgyw/file/full-year-results/preliminaryFinalReport16.pdf>

Source 3: Qantas annual report 2015.

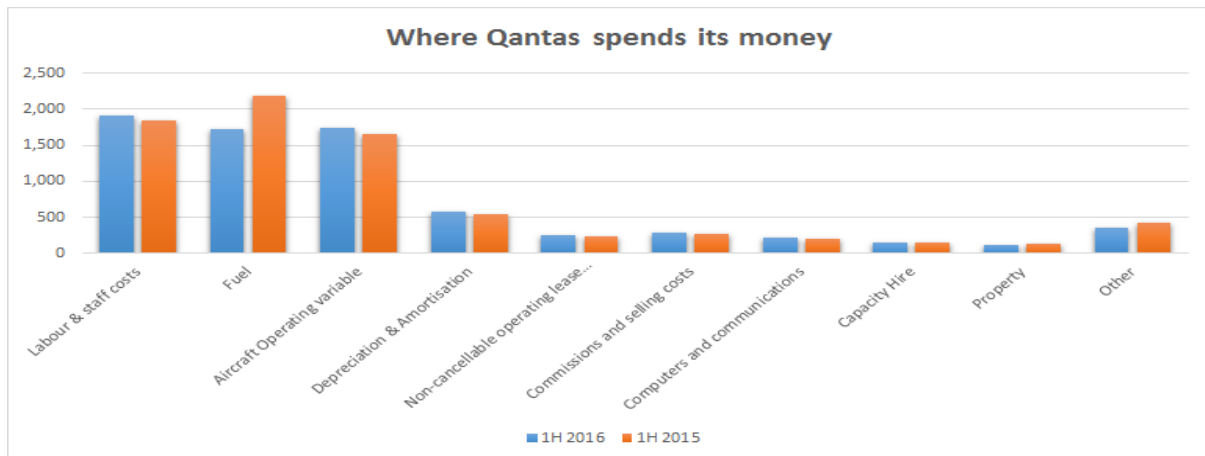
<https://www.qantas.com.au/infodetail/about/investors/2015AnnualReport.pdf>

Source 4: Miscellaneous charts.

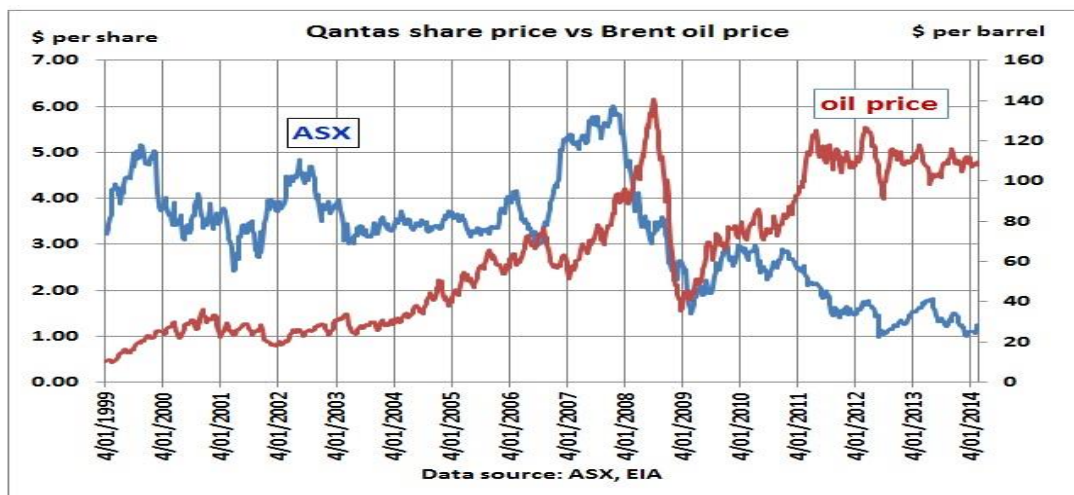
The following chart shows how Qantas has turned around the earnings before interest and tax (EBIT) of its 3 big divisions: Domestic, International and Jetstar over the past 18 months



This following chart shows where Qantas spends its revenues and how the falling oil price has translated into big savings



Qantas share prices vs Brent oil price



Qantas share price movements Sept 2015 – to date



A\$ currency exchange rates 2015 – 2016



Source 5: Venezuela's oil economy.

<https://www.washingtonpost.com/news/worldviews/wp/2016/01/15/venezuelas-oil-based-economy-is-about-to-flatline-then-what/>

Other Resources

<http://investor.qantas.com/FormBuilder/Resource/module/doLLG5ufYkCyEPjF1tpgyw/file/full-year-results/investorPresentation16.pdf>

<http://www.iata.org/publications/economics/fuel-monitor/Pages/price-analysis.aspx>

Questions

Part 1: Company financials [45 marks]

Through 2014-2016 financial performance of Qantas has seen a major turnaround (refer to Source 1, 2 and 3).

- a) On Page 24 of the 2016 Preliminary Final Report shows a Return on Invested Capital (ROIC) of 16.2% in FY15 and 22.7% for FY16 (calculations showing how these figures have been derived is detailed in subsequent pages). What are the main contributing factors to this improved operating result? Explain in detail. You may want to do some research of your own, present and cite your own findings where applicable. (15 marks)
- b) Based on the 2016 Preliminary Final Report (Source 2) consolidated financial statements, calculate average interest bearing debt levels, average total equity and cost of debt for the financial year 2015-2016. Clearly state any assumptions. (10 marks)
- c) Use Yahoo Finance and other sources, find beta and market premium. Based on your knowledge of either the Capital Asset Pricing Model (CAPM) and derive an appropriate cost of equity. Clearly state any assumptions. (10 marks)
- d) Calculate the weighted average cost of capital (WACC) for Qantas. (5 marks)
- e) For the year ended June 2016 Qantas paid more than \$500m to buy back shares. Explain possible reasons for Qantas to follow such a course of action? (5 marks)

Part 2: Raising capitals [15 marks]

Assume that Qantas is evaluating financing options for the investment in aircraft cabins and Wi-Fi through the issue of corporate bonds. Qantas is exploring issuing \$100m bonds of face value \$1000, a coupon rate of 5.5% paid semi-annually, with a maturity period of 10 years. If yield to maturity is 6%:

- a) Calculate the value of the bond (5 marks)
- b) Assume that the cost of existing debt and equity from part 1 b) and c) are unchanged, calculate the new WACC (5 marks)
- c) If Qantas issues convertible bonds instead, how would the yield change from the current 6%? Why? (no calculations required, 5 marks)

Part 3: Capital budgeting [25 marks]

Assume that Qantas wishes to make further capital investments and the management is exploring two options, all dollar figures are in Australian Dollar:

Option 1: Expanding their jet services to regional Australia. The new jet services require an initial investment of \$ 1.8m and further investments at the end of years 1, 3 and 5 of \$ 1.2 m each. In addition, it will also incur working capital expenses at the beginning of the project of \$0.4 m and recover these at the end of year 8. The Golf course will generate cash inflows of \$ 0.8 m at the end of year 1, \$1.6m each in years 2, 3 and 4 and \$ 1.8m each through years 5 to 8. At the end of year 8 the service will be sold for \$ 0.6m. Qantas is able to claim an annual depreciation of \$0.15m from years 1 to 5 and pays Australian company tax at 30%.

Option 2: Given the recent economic trouble in Venezuela (See Source 5), its government is looking to privatise portions of the country's oil industry. One of the oil fields in Venezuela requires one-off initial investment of \$ 5m now and will generate cash inflows of \$0.6m at the end of year 1, \$1.8m each in years 2, 3 and 4 increasing to \$2m every year for the next 4 years. The oil field will be sold at the end of this for \$ 0.4m. Qantas will not qualify for any depreciation on this project and will pay Australian company tax at 30%. Venezuelan government promises to charge no tax for this project.

- a) Calculate the Net Present Value for each of the two investment options, assume that the WACC is 10%. (10 marks)
- b) Which investment will you recommend for Qantas? (5 marks)
- c) Considering the choice of WACC as the discount rate for both projects, what could be the potential dangers? What adjustments in terms of discount rate would you recommend? (answer qualitatively, no calculations needed, 10 marks)

Part 4: Market perspectives [5 marks]

- a) Qantas announced the full year result 2016 (See Source 1) at 8:42am on 24th August 2016. Considering the share price movements from 23rd-25th August 2016, what would be the implications to the efficient market hypothesis? Which version of the efficient market hypothesis does this event imply? (5 marks)

Part 2: Group Presentation

Task Description

Length: 12-15 minute presentation, 5-10 minutes questions.

Due: *Week 11*

Description:

- Present your answer to part 1 question a) from the Written Assignment as if you were presenting these findings to a group of investors.
- Use no more than 10-12 slides; ensure the presentation is no more than 15 minutes.
- You can refer back to your analysis and briefly explain how you achieved your results.
- All group members need to speak
- You will be assessed based on a rubric uploaded on the portal and how interesting and engaging the presentation is

Layout

- The presentation must not exceed 15 minutes
- Groups must present the lecturer with a hand-out of the slides.
- Slides need to be structured in a logical manner.
- A reference list should be included at the end of your slides and any sources you refer to in your analysis must also be referenced using in-text referencing. A [referencing guide](#) can be found on the portal under “Academic Success Centre/ Library” and is also uploaded under Assessments on the portal site.

Assessment

- Please see on the portal under assessments. You will be marked according to this rubric.
- Plagiarism or inadequate references will attract harsh penalties.

Commonly asked Questions

For the written assignment, what if I am above the word limit of 2500? How much can I exceed the word limit?

This is OK to a point. You have a 500-word lee-way. However, this is only if the additional words address the assessment task and are strictly necessary for your analysis.

Can our presentation be longer than 15 minutes?

No- the lecturer will stop you after 15 minutes.

Can our group have less than 4 students or more than 6 students?

No. You need to stick to these parameters. If you cannot form a group of four you can speak to your lecturer and he will either combine a few groups or reach an alternate arrangement.

Do I need to reference sources such as the textbook, other finance textbooks and online sources?

Yes. Please use the referencing guide from the portal and uploaded under assessments and include a reference list at the end of your written assignments and group presentations. Also please use in-text referencing.

Do I need to reference the lecture slides or tutorials from this course?

No you do not.

What is plagiarism and what are the consequences?

If you copy or reproduce someone else's work without re-phrasing it or putting it in quotation marks, this is plagiarism. Also if you rephrase some else's ideas and do not include an in-text reference this is also plagiarism. You will be penalised for this. The assignment will be put through Turnitin so any plagiarism will be identified by the software.

Are references part of the word count?

No.

Will we be assessed on the quality of our group meeting records?

No, you just need to hand them up as part of both Part 1. They are designed to help you organise your group- you will not be marked on these. Please make them very brief.

Does my written have to be in report form or do I just address each question?

No, it does not have to be in essay or report form and you just need to address every question directly with reference to theory, research or calculations depending on the question.

Group Meeting record

- Each Group please fill in the table for a **minimum of three meetings** and **paste into your written assignment**
- The notes can be brief

Meeting Date	Group Members Present	Issues Discussed	Tasks Completed and tasks Allocated
	<i>A list of Group Members who attended meeting</i>	<i>A list of issues discussed:</i>	<i>A brief list of tasks to be done before next meeting and who is going to do the tasks:</i>

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