MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2012/2013

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (CITY CAMPUS)

MBA 822: SECURITIES ANALYSIS & VALUATION

Date: 28th July, 2013 *Time: 2.00 – 5.00 p.m.*

INSTRUCTIONS:

- Answer ANY FOUR questions.

Question One

a) Discuss the relationship embodied in the Security Market Line. (5 marks)

b) Analysis of the future prospects of any firm in Kenya will include the overall economic environment in which it operates. Describe the key macroeconomic variables relevant to this analysis and explain their impact on the Nairobi Securities Exchange. (20 marks)

Question Two

a) Explain the two approaches taken by fundamental analysts in their search for mispriced securities. (10 marks)

b) Explain any THREE main obstacles in the way of successful fundamental analysis in Kenya. (15 marks)

Question Three

a) Explain the concept of a security's Alpha in reference to a security market line (SML). (5 marks)

b) The following table gives an analyst's expected return on two stocks for particular market returns:

Market return	Aggressive stock	Defensive stock
6%	2%	8%
20%	30%	16%

i) What are the betas of the two stocks? (5 marks)

ii) What is the expected return on each stock if the market return is equally likely to be 6% or 20%? (5 marks)

iii) If the risk-free rate is 7% and the market return is equally likely to be 6% or 20% what is the SML? (5 marks)

iv) What are the alphas of the two stocks? (5 marks)

Question Four

a) Kibos Ltd paid dividends amounting to shs 1 per share during the past year. The company is expected to pay dividends of shs 2 per share during the next year. The year after that, dividends are expected to amount to shs 3 per share and to grow thereafter by 10% per year indefinitely.

Calculate the value of Kibos Ltd's common stock if the required rate of return is 15%. (10 marks)

b) The following information has been given to you:

	Stock A	Stock B
Expected return	16%	12%
Standard deviation	5%	8%

The coefficient of correlation between stock A and stock B is 0.60

Required:

i) What is the covariance between stocks A and B? (5 marks)

ii) What is the expected return of a portfolio in which A and B have weights of 0.6 and 0.4 (5 marks)

iii) What is the risk of a portfolio in which A and B have weights of 0.6 and 0.4 (5 marks)

Question Five

a) Technical analysts assume that the securities market is 90% psychological and 10% logical. Describe the basic premises underlying technical analysis. (12 marks)

b) The success of the NSE - 20 Share Index depends on its ability to successfully act as a barometer of the Nairobi Stock Exchange. Discuss. (13 marks)

Question Six

a) The ordinary dividend per share of X Ltd is expected to grow from the current Kshs 3.50 to Kshs 10.90 in 10 years. If X Ltd's ordinary shares are currently selling for Kshs 70.00 each, what is the expected rate of return on the shares? (6 marks)

b) "An efficient market is one in which the market price of a security is an unbiased estimate of its intrinsic value". Discuss. (10 marks)

c) Discuss the three levels of market efficiency (9 marks)