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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management (Batch 2023-25) |
| **Course Title: Equity Analysis & Portfolio Management, (Course Code: 40222)**  **Improvement Examination, Term - IV (November, 2024)** | |
| **Time Duration: 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
2. *Marks against each question are indicated to its right.*
3. *Answer all the questions of a ‘Section/Question’ in one place in continuation.*
4. *Answers should be brief and to the point. Cite examples wherever required.*
5. *Do not write anything on the question paper except your roll number.*
6. *You can use any scientific / financial calculators*
7. *MS Excel may not be required to do calculations*
8. *It is* ***a closed book exam***

Q1 Watson David, CFA is planning to value ION Corporation using a single-stage FCFF approach. ION provides a variety of industrial metals and minerals. The financial information David has assembled for his valuation is as follows:

* The company has 1,852 million shares outstanding
* Market Value of debt is $3.192 billion
* FCFF is currently $1.1559 billion
* Equity beta is 0.90, the equity risk premium is 5.5%, and the risk –free rate is 5.5%
* The before – tax cost of debt is 7%
* The tax rate is 40%
* To calculate WACC, assume the company is financed 25% with debt
* FCFF growth rate is 4%

Using David’s information, *Inspect* the intrinsic value per common share of ION Corporation.

**(Marks 8)**

Q2. You are analyzing three large –cap European stock issues with approximately equal earnings growth prospects and risk. As one step in your analysis, you have decided to check valuations relative to the Financial Times Stock Exchange (FTSE), Eurotop 300, an index of Europe’s 300 largest companies, Table **P-1** provides the data:

**Table P-1: Comparison with an Index Multiple (Prices and EPS in Euros)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As of 31st October 2024** | **Stock A** | **Stock B** | **Stock C** | **FTSE Eurotop300** |
| **Current price** | 23 | 50 | 260 | 1229 |
| **P/E 2025E** | 20 | 25.5 | 20 | 23.2 |
| **Five –year average P/E ( as a % of Eurotop 300 P/E)** | 80 | 110 | 105 |  |

Based only on the data in Table P-1, answer the following question:

*Inspect* which stock appears relatively undervalued against the FTSE Eurotop 300? Give justification to your argument.

**Marks (7)**

Q3 You have the following information for Sweat Inc. Corporation for the years 2023 and 2024 (all figures are in $ million)

|  |  |  |
| --- | --- | --- |
| **Financial ratios** | **2023** | **2024** |
| **Net income** | 253.7 | 239 |
| **Pretax income** | 411.9 | 375.6 |
| **EBIT** | 517.6 | 403.1 |
| **Average assets** | 4,857.9 | 3,459.7 |
| **Sales** | 6,679.3 | 4,537.0 |
| **Shareholder’s equity** | 2,233.3 | 2,347.3 |

Examine the trend of ROE from the given information.

**Marks 5**

Q4. Suppose that the risk-free rate is 6% and the expected return on the investor’s tangency portfolio is 14%, with a standard deviation of 24%

* 1. *Deduce* the investor’s expected risk premium per unit of risk
  2. *Determine* the portfolio’s expected return if the portfolio’s standard deviation on return is 20 %
  3. If expected return needed for a complete portfolio is 16%, how much amount should the investor invest in risk free government bonds?

**Marks (2+ 4 +2)**

Q5. Geeta Mansharamani is the chief investment officer of an Indian pension scheme invested in Indian equities, Indian government bonds, and U.S. equities. Her current portfolio has a Sharpe ratio of 0.15, and she is considering adding U.S. bonds is 0.10, and their predicted correlation with the existing portfolio is 0.20. *Explain* whether Geeta should add U.S. bonds to the pension funds with a logical explanation.

**Marks (5)**

Q6 An analyst is tasked with estimating the cost of equity for a publicly traded company and wants to incorporate factors such as financial distress risk, market capitalization, and market risk into the analysis. Three models have been proposed: The Capital Asset Pricing Model (CAPM), the Fama-French Model, and the Macroeconomic Factor Model.

Evaluate the suitability of each of these models in capturing the relevant factors. In your response, provide a detailed comparison of how each model addresses or fails to address financial distress, market capitalization, and market risk. Finally, it is crucial to *justify* which model you believe is the most appropriate for the analyst's objective, supporting your reasoning with clear arguments based on the advantages and limitations of each model.

**(Marks 7)**