

HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY
FINA 514 ADVANCED CORPORATE FINANCE

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Class Hours: Section L1: Tuesday 0900-1220 HRS
Section L2: Saturday 0900-1220 HRS

Class Venue: Section L1: 4115a
Section L2: 1403

TA: Shantanu Banerjee (shantanu@ust.hk)

Course Description:

As suggested in the title of the course, this is an advanced course. It presumes that the student is familiar with basic corporate finance (Brealey & Myers, or equivalent book). This course will focus on the strategic aspects corporate finance. In particular, we will cover real options and the role of financing choices of the firm. The case method will be extensively relied upon. Students (in groups of 4-5) are also expected to prepare case reports for sessions with cases and also a project report on a recent cross border investment in China (- presentation of project report will be on the last session).

Pre requisites:

FINA 511

Books and Materials:

(Required) Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy*, (Irwin/McGraw-Hill, 1998).

(Required) *Course Packet*. The course package includes articles and cases.

Grading:

Grading:	Best 4/5 case reports:	20 points
Quiz # 1:	(Held around session 4-5) covering sessions 1-3	30 points
Quiz # 2:	(Held around session 7-8) covering sessions 4-6	35 points
Project report and in-class presentation:		10 points
Peer evaluations of groups:		5 points
TOTAL		100 points

- If a personal emergency forces you to miss an exam, please try to inform me in advance. Only in case of a personal emergency a make-up *may* be administered. In any other circumstance, missed exams will be assigned zero points.
- Each student should be part of a group of 4-5 members. Each group should submit a common case report of 2-3 pages (+ 1-2 exhibits, if required) for the cases held after session 1. All students within a group will receive the same grade
- Quiz # 1 and Quiz # 2 will be held in class and may be of 45 min to 1:15 min in duration.

Tentative Outline

No.	Topic	Case reading	GT (Ch. Section)
1a	Valuation Basics	Warren Buffet, 1995	Ch 9.1-9.3, 10.1-10.7
1b	Capital Budgeting	Economy Shipping	Ch. 9, 10, 11.1-11.5
2a	Leverage and WACC	Marriott Cost of Capital	Ch 13.1, 13.3
2b	Competitive Strategy	BSB vs. Sky	Ch 12.1
3a	Introduction to options	None	Ch 7.1 – 7.4
3b	Real Options I	None	Ch 12.2
4a	Real Options II	Arundel Partners	Ch 8.6
4b	Cap. Structure I: Taxes	None	Ch 14.1-14.4
5a	Dividend Policy: Role of Taxes	None	Ch 15.1-15.3, 15.5-15.6
5b	Cap. Str. II: Financial Distress.	None	Ch 16.1-16.5
6a	Cap. Str. III: Corporate Strategy	None	Ch 17.1-17.6
6b	Cap. Str IV: Financing Decision	Cox Comm.	Ch 17
7a	Cap Str IV: Information content	None	Ch 19
7b	Cap. Str. V: Convertible debt	MCI Comm.	Ch 19
8a	Catch-up time		
8b	Class Presentations	None	None

Project report:

Select a **recent** (and reasonably significant) cross-border investment made by an American or European firm in China. You have to prepare a 4-5 page report (plus any exhibits, if required) along the following lines:

1. Deal description: $\frac{1}{2}$ page giving details of the transaction
2. What is the “story”? 1 page discussing the value proposition. What is the “story” that has been attributed by media/analysts as the reason behind the acquisition? What benefits seem to accrue to the acquirer/acquired firm?
3. Optional: Can you create a simple DCF (two stage growth model) of the projected free cash flows using reasonable assumptions? You can work at aggregate accounting levels e.g., gross margins, etc. On the other hand, this may not be possible to do this, given paucity of data.
4. Real options embedded in the project: 1 page where you identify the sources of any option like characteristics in the project? Does the project lead to follow-up opportunities? Does the project involve staged sequential investments? Can you get a ball-park estimate of the value of these real options?
5. Discuss the financing aspects of the deal: 1 page giving detail of the means of financing? Can we get an estimate of the weighted average cost of capital? What are the strategic effects associated with the financing arrangement? Are there any subsidies involved in the financing arrangement? How do you value the subsidy, if any?
6. How does this investment affect the parent company? $\frac{1}{2}$ page discussing the effect of this investment on the parent firm’s short term earnings? Any other effects on the incentives of parent company managers?
7. Conclusion: $\frac{1}{2}$ page. What have you learnt from this analysis?

I should also point out that there are no “correct” or “incorrect” answers. The suggested guidelines above may be difficult to address in each and every project. Do the best you can with the data that is available. Also think about incorporating whatever we are learning during the course into the project report. I will provide no explicit guidance for this project. It is an opportunity to showcase your creativity and enthusiasm for the topics in this course (an equivalent of class participation).

Each group should also be prepared to make a 5-7 minute presentation based on their analysis in front of the classroom. Peer evaluations will be used for this component.