

Hong Kong University of Science & Technology

School of Business and Management

FINA 512 – CORPORATE FINANCE

OCTOBER 2005

Vidhan Goyal
Department of Finance
Office: Room 2368
Tel: 2358.7678
Fax: 2358.1749

E-mail: goyal@ust.hk
<http://www.bm.ust.hk/~fina512>

COURSE OUTLINE

This core course provides a framework for financial planning and for analyzing the major types of investment decisions made by firms. We start with a discussion of how managers strategically formulate financial plans and estimate financing needs. We then move on to corporate investment decisions and working capital management. We also examine the concept of risk and return and learn how to estimate the cost of debt, the cost of equity, and the weighted average cost of capital (WACC). A good knowledge of the topics in this course is important for anyone thinking of a career in investment banking, consulting, and corporate management.

PREREQUISITES

A strong background in financial accounting, microeconomics, and business statistics is essential. In addition, you need basic Excel spreadsheet skills.

COURSE SCHEDULE, READINGS AND DUE DATES

1. OCTOBER 25 FINANCIAL FORECASTING AND PLANNING

 RWJ: Chapter 3: Financial Planning and Growth

 Exercise: Forecasting Financial Statements of **Tsingtao Brewery**

 ESTIMATING NET CASH FLOWS

 Exercise: Estimating Net Cash Flows of **Tsingtao Brewery**

 Case: **Dell's** Working Capital, Harvard Business School, Case # 9-201-029

2. NOVEMBER 1 FINANCIAL PLANNING
 CLARKSON LUMBER CASE ANALYSIS DUE
Case: Clarkson Lumber Company, Harvard Business School, Case # 9-297-028.
 THEORY OF VALUE
 RWJ: Chapter 4: Net Present Value
 VALUATION OF STOCKS
 RWJ: Chapter 5 (Sections 5.4 – 5.8): The Present Value of Common Stocks; Dividend Discount Model; Growth Opportunities; Price-Earnings Ratio
Exercise: Estimate the Value of Tsingtao Stock
3. NOVEMBER 8 ALTERNATIVES INVESTMENT DECISION RULES
 PROBLEM SET 1 DUE
 RWJ: Chapter 6: Some Alternative Investment Rules
4. NOVEMBER 15 INCREMENTAL CASH FLOW PRINCIPLE
 PROBLEM SET 2 DUE
Readings:
 RWJ: Chapter 7, Net Present Value and Capital Budgeting
Case: Ocean Carriers, Harvard Business School Case # 9-202-027
5. NOVEMBER 22 DECISION TREES
 MERCK & COMPANY CASE DUE
Case: Merck & Company: Evaluating a Drug Licensing Opportunity, Harvard Business School Case # 9-201-023
 RWJ: Chapter 8 (Sections 8.1 and 8.2)
6. NOVEMBER 29 RISK AND RETURN
 COST OF EQUITY
 PROBLEM SET 3 DUE ESTIMATING THE COST OF CAPITAL
 RWJ: Chapter 9, Capital Market Theory: An Overview
 Chapter 12, Risk, Cost of Capital, and Capital Budgeting
Exercise: Estimating Cost of Equity of Lenovo
7. DECEMBER 6 ESTIMATING THE COST OF CAPITAL
 DIVISIONAL COST OF CAPITAL
 PROBLEM SET 4 DUE
Exercise: Estimating WACC of Lenovo
Case: Marriott Corporation: The Cost of Capital

(Abridged), Harvard Business School Case # 9-289-047.

8. DECEMBER 13 Final Exam, 10AM to 12:30 PM