

Hong Kong University of Science and Technology

FINA 511 Fundamentals of Financial Management
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Course Objectives:

At the end of this course, you should be able to understand the techniques for valuing bonds and stocks, evaluate new investment projects, appraise the various measures of risk, estimate the cost of capital, understand the simple theories of capital structure and their applications, know when dividend policy matters and understand how firms raise capital to finance their assets and new projects.

Textbook

Principles of Corporate Finance by Brealey and Myers, 7th ed., 2004.

Instructor's lecture notes will be provided for all topics listed below.

Course Contents

1. Understanding Basic Financial Statements
Ch. 29
2. Introduction to Finance: goal of the firm, agency costs, determinants of interest rates, basic structure of Hong Kong financial and banking systems.
Ch. 1, 14, 15
3. Time value of money
Ch. 2, 3
4. Bond Valuation
Ch. 3, 24
5. Stock Valuation
Ch. 4
6. Risk and return
Ch. 7, 8, 13
7. Capital Budgeting under uncertainty: NPV, IRR, Investment Decisions

Ch. 5, 6, 9

8. Cost of Capital

Ch. 19

9. Financing avenues for a firm – IPOs, equity fund raising, short-term and long-term debt, venture capital (basic concepts)

Ch. 14, 15

10. Capital Structure: Examples on how debt through tax deductibility of interest could increase firm value (Hong Kong examples also used).

Ch. 17, 18, 19

11. Dividend Policy

Ch. 16

Please note that more chapters may be required depending on students' needs. This will be announced in class, if more chapters are to be covered.

Lecture notes, problem sets (answers to problem sets) will all be uploaded on the website.

Assessment

Three problem sets: 30%

1 group-case (Reeby Sports, from Brealey and Myers, Chapter 4, pg. 87): 10%

1 company analysis group-project: 10%

Final Examination: 50%

Class Participation during Lecture: 5% (bonus points)

Problem sets (30%):

Two problem sets are multiple-choice in nature (individual work).

One problem set on capital budgeting can be done in a group of at least three members but not more than five members. Please use the same group for group case and company analysis project.

Group-case (Reeby Sports, from Brealey and Myers, Chapter 4, pg. 87): 10%

Group: At least three members but not more than five members. If you can't form a group, let me know asap.

Company analysis group-project: 10%

Please do the following:

Choose a H-share, red chip or a Hong Kong firm that is trading on the stock exchange of Hong Kong. Treat this exercise from the perspective of someone wanting to understand the company's business activities. Write a 6-page paper (double-spaced, Times New Roman 12 pt)

(more if you want, but not more than eight pages).

Write about what the company does, and comment on the growth strategies of the firm for the future.

Please form groups of not fewer than 3 (for your benefit) but not more than 5 to do this project. The purpose of this exercise is to motivate you to think along the lines what successful entrepreneurs do in their respective businesses.

You may not exceed seven pages. A page on calculations is not counted in the number of pages.

Include in your write-up the following.

Name of company:

Place of incorporation:

Years of operation:

What does it do? If the company manufactures more than one product, focus on a main product.

Write details about that product. What is it? Why is it so special? Write about the competing products in the market. Is the firm's product better than the other products? Why is it better? Price, quality, service?

Is the management practising good corporate governance that protects minority shareholders?

What are the weaknesses, if any, with the company? How would you propose to alleviate the weaknesses?

What should be the long-term growth strategies for the next ten years? New markets? New research and development. Should the firm focus on a certain market rather than developing new markets?

Distribution network for its products? Logistics (transportation and flow of its goods to customers, flow of raw materials, if any, etc.) problems and competitive advantages?

Calculate the following ratios:

Return on equity

Return on Assets

Current ratio

Total Liabilities/Total Assets ratio

Sales/Total Assets

Profit margin NI/S

Equity multiplier = TA/E

Price/Earnings ratio. Price is taken to be the current market price you choose on a certain date (say from now until Jan 15). Earnings is the earnings of the company for the previous financial year (the most recent earnings you can get hold of).

Market Value of Equity

Book Value of Equity

Market Value/Book Value of Equity

Make sure you attach the summary of the financial statements of the firm that is required for your analysis in the appendix.

Conclusions: A short paragraph on whether the firm is heading in the right direction. Include references list, i.e. where you take the materials from for this project. References list is not counted in the number of pages.

Deadline: 26 January 2005.

Group: At least 3 members but not more than 5 members. If you can't form a group, let me know asap.