



University of Fort Hare
Together in Excellence

UNIVERSITY OF FORT HARE
ECF 528E
HONOURS EXAMINATIONS

NOVEMBER 2019

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Time 3 Hours

Subject: Equity Market

This paper consists of 3 pages including the cover page

Internal Examiners

Mrs P. Makhetha-Kosi

External Examiner

Dr G. Ndlovu

Instruction

Answer ONLY 4 questions.

Question 1

Using the case of South Africa, explain how the valuation of a stock is affected by

- i) Economic growth (6)
- ii) Expected inflation (6)
- iii) Exchange rate (6)
- iv) Political instability (7)

Question 2

- a) What is the role of the secondary capital market in the financial system? (15)
- b) Discuss the importance of financial intermediaries in the financial system. (10)

Question 3

- a) What would you pay today for a stock that is expected to make a R2 dividend in one year if the expected dividend growth rate is 5% and you require a 12% return on your investment? (6)
- b) You have reviewed the ratios for Richjen Pty and found that the ROE is lower than the one for industry. After further investigation, you determine that net profit margin is low despite normal gross and operating profit margins. What else might you look at to confirm the source of Richjen Pty's problem? (10)
- c) The dividend on Simple Motors common stock will be R3 in 1 year, R4.25 in 2 years, and R6.00 in 3 years. You can sell the stock, after you receive the dividend, for R100 at the end of 3 years. If you require a 12% return on your investment, how much would you be willing to pay for a share of this stock today? (9)

Question 4

- a) Illustrate and explain, how and why stock market predicts business cycles. (15)
- b) For a country that is in a recovery stage, what industry would be good for an investor? (10)

Question 5

- a) Explain the rationale for using present value of cash flow models to value equity and explain the dividend discount and free cash flow to equity models. (25)

Question 6

- a) What is the fundamental analysis? How does this differ from technical analysis? (10)
- b) One of the factor affecting the level and growth of a company's earnings is the competitive position of the company. How would the Porter's five forces model explain the competitive strategy of a young oligopolistic firm with an aggressive stock? (15)