

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INVESTMENTS (IOBM – AD310)**

**Date: Friday, 17th May 2019**

**Time Allocated: 3 Hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions; each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions; each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper, but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. Discuss why it is important for Investors to always consider time value of money when making investments. *(5 marks)*
2. The following has been extracted from financial statement of XYZ Company for Period ending 31 December 2015

**K’ 000**

Profit before tax 15 600

Tax 4 680

Profit after tax 10 920

Dividend to preferential share holder 420

Net income attributable to ordinary share holder 10 500

Dividend to ordinary share holder 5 450

Addition to returned earnings 5 470

Per share price = 3

Number of shares = 21, 590, 000

1. Calculate the P/E ratio of this company’s share. *(5 marks)*

ii) Calculate the value of the share if next year the dividend rate will be 12% higher. Given risk free rate of 6% and market rate of 14%. *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

Investment decisions are influenced by a number of risks. Mention and briefly discuss any **five** risks that will influence your decision to invest. **(Total 15 marks)**

**QUESTION 3**

1. Calculate the value of an ordinary share of ABC Ltd on Malawi Stock Exchange given the following information of the company;

1. The firm has just declared a dividend (Do) of K15 per share.
2. The annual growth rate (g) of the dividends of the past six years has been 10%.
3. Management is of the opinion that this growth rate will be maintained in the future. The firms cost of ordinary shares is 30%. *(10 marks)*
4. A share is expected to pay a dividend (D1) of K5 per share next year given risk fee rate of interest of 5%, market return of 10% and dividend growth of 10%. Calculate its value. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

A balanced investments portfolio is essential to investors. Briefly explain the **three** elements of a balanced investment portfolio and explain why it important for a potential investor to consider it when making an investment decision. **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Investing in hard assets has many advantages over the other types of investments. Give and briefly explain **five** advantages of this type of investment taking into consideration the economic situation currently in Malawi. *(10 marks)*
2. Give a summary of annuities. In your summary, discuss about the issuers and investors in annuities. *(5 marks)*
3. Differentiate between a call option and a put option. *(5 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. The following information is given to you on 31 December 2015, the end of financial of ABC limited to calculate the following and compare your answers with the year industry averages:

1. Profit margin on sales *(5 marks)*
2. Return on total assets *(5 marks)*

Net income available to common stockholders 113 500.00

Revenue/Sales for the year 3 000 000.00

Total Assets 2 000 000.00

Industry average on profit margin 5.0%

Industry average on Return on total assets 9.0%

1. ABC Ltd has current liabilities equal to K2 000 000.00. The Company’s current ratio is 1.5, and its quick ratio is 1.0. What is the firm’s level of:
2. Current Assets *(5 marks)*
3. Inventories *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

In a paragraph of more than 50 words each, explain the use of options under the following terms:

1. Strike price *(5 marks)*
2. Expiry date *(5 marks)*
3. Options premium *(5 marks)*
4. Double options *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Assume Wooltru Ltd issues 6% preference shares at 100 tambala each. The required rate of return is 3.5%. Calculate the following for Wooltru Ltd;
2. The dividend per preference share *(2.5 marks)*
3. The Value of the preference share *(2.5 marks)*
4. Calculate the fair value of a share if Illovo Sugar (mw) Ltd maintains earnings per share at 84 cents and the required rate of return is 9.8%. *(5 marks)*

1. Assume XYZ Ltd’s most recent dividend (D0) was 15 tambala per share. The dividends are expected to increase by 12% annually over the next 3 years. At the end of the 3 years, the growth rate is expected to drop to an 11% annual growth rate for 2 years. The growth rate after the first 5 years is then expected to remain constant at 10% per annum indefinitely. The firm’s required rate is 15%. Calculate the expected dividend for year 1 through to year 5. *(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**