GESTÃO FINANCEIRA II / CORPORATE FINANCE II

Problem Set 1

Licenciatura – Undergraduate Course

1st Semester, 2020-2021

GESTÃO FINANCEIRA II / CORPORATE FINANCE II – PROBLEM SET 1

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Chapters 1, 13 and 16

1- True or false and justify all answers (up to 5 lines):

The managers of an industrial company can do several things to protect shareholders' interest and the company's value. For example, managers might:

a) Make shareholders' as wealthy as possible by investing in financial assets with market risk.
b) Pay high dividends when the company needs to make a significant investment.
c) Make investments according to the shareholder' preferences.
d) Make investment decisions based on the macroeconomic cycle.
e) Engage in an aggressive borrowing policy in high-interest rate cycles.
f) Choose low or high risk assets based on several factors, such as the company's financial situation, the economic and interest cycle and the expected return adjusted for risk.

2- True or false and justify all answers (up to 5 lines):

a) The company XPTO just announced that its first-half net profits were 0.10€ per share. Financial analysts had expected 0.13€ per share. The stock price is expected to fall.
b) In an efficient market, the expected return on a share from the pharmaceutical sector and another share from the automobile sector is the same.
c) If an investor does crazy things in the markets, this affects the market's efficiency.
d) Consider a senior manager in a universe of 1.000 companies who are listed. When he/she uses privileged non-public information to take advantage and obtain superior gains, this does not affect the market's efficiency.
e) A close friend mentioned that S&P500 is at historic highs, but the sky has no limits.
f) The beta coefficient gives different information than the PER (Price Earnings Ratio).

3- Respond to these questions:

a) The company ABC made a net profit of €5.0 million, although announced a dividend payment of €7.0 million. The company is in an investment cycle and has a significant level of debt. From a financial perspective, does this decision make sense? Justify.

b) Two companies, A and B, will pay 0.2€ and 0.4€ of dividend per share. Do you have enough information to decide which is the best investment? Justify.

c) The company XYZ has outstanding 1,000,000 shares with a total market value of 10,000,000 €. Next year divided is expected to reach 300,000 €, growing thereafter by 5% in perpetuity. What is the appropriate discount rate for the company?