CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

DIPLOMA WINTER 2011 EXAMINATION

INVESTMENT ANALYSIS

DATE OF EXAM	Tuesday 6 December 2011
3 Hrs 15 mins	2.00 pm – 5.15 pm
RUBRIC	SECTION A - ***ALL*** parts of the question in this section are to be answered
	SECTION B – ***ALL*** questions in this section are to be answered
	SECTION C **–** ***TWO*** questions in this section are to be answered

Candidates are reminded that no marks will be awarded for illegible work

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the cover of your Answer Book. *Do not insert your name*.

2. Show *all* workings in your Answer Book.

3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Book which questions you are answering.

4. Please insert in the box provided on the cover of your Answer Book the numbers of the questions you have attempted in the order in which they appear in the Answer Book.

5. You may use the calculator provided or one approved by the Chartered Institute for Securities & Investment.

6. You must hand your Answer Book to an invigilator before you leave the Examination Hall. *Failure to do so will result in disqualification*.

7. Once submitted, the examination scripts become the property of the Chartered Institute for Securities & Investment and will not be returned to candidates.

SECTION A TOTAL 40 MARKS

Answer ALL parts of the question in this section. All parts refer to Stobart Group plc.

Question 1

a) Briefly describe the main activities of Stobart Group plc in the year ending 28 February 2011. *(2 marks)*

b) Calculate and comment upon the operating profit margin of Stobart Group plc for the years ending 28 February 2010 and 28 February 2011 by each of its major business activities. *(5 marks)*

c) Compute the following financial ratios for Stobart Group plc in 2010 and 2011 and comment on them:

   i) Return on capital employed

   ii) Net profit margin. *(4 marks)*

d) Explain how Stobart Group plc's equity capital account has changed over the year ending 28 February 2011 with reference to its Consolidated Statement of Changes in Equity. *(4 marks)*

e) Discuss the potential strengths and weaknesses Stobart Group plc's diversification strategy. *(4 marks)*

f) With reference to Stobart Group plc's annual report, compare and contrast the Chairman's Statement and the Chief Executive Officer's Report. *(3 marks)*

g) Prepare forecasts of profit before and after tax and earnings per share for Stobart Group plc for the year 28 February 2012. Explain the basis of your computation and of any assumptions that you have made. *(10 marks)*

h) Advise on the desirability of investment in the shares of Stobart Group plc at the price shown on page 1 of the Information Pack. Explain the reasons behind the advice given. *(8 marks)*

SECTION B TOTAL 30 MARKS

Answer ALL questions in this section

2 Explain how the analyst should interpret the price/earnings (P/E) and price/earnings growth (PEG) ratios. *(3 marks)*

3 Company GHI plc is a UK listed clothing retailer. The market value of its capital structure components is £6 billion for equity and £4 billion for debt and its beta coefficient is 0.85. The UK 3 month Treasury bill rate is 3.5% and you estimate that the market risk premium over and above this rate is 4.0%. The UK corporation tax rate is 26% and the rate paid by the company on its 10 year bonds is 5.5%. Calculate GHI plc's weighted average cost of capital (WACC). *(4 marks)*

4 Give three reasons why debt finance might be considered more attractive than equity finance in the funding of a company acquisition. *(3 marks)*

5 Explain the meaning of the term "quantitative easing" along with its rationale. *(4 marks)*

6 a) Define Macaulay duration. *(1 mark)*

b) A five year 7 per cent annual coupon bond redeemable at £100 trades with a gross redemption yield of 6 per cent. Calculate the Macaulay duration of the bond. *(3 marks)*

7 Briefly explain the economic term "The Multiplier Effect". *(3 marks)*

8 Explain the relationship between a "call option price" and the following, and give a brief reason to support your answer:

a) Share price

b) Exercise price

c) Interest rate

d) Time to expiration

e) Volatility of share price. *(5 marks)*

9 Shares in DEF plc have recently paid a dividend of 50p per share. Dividends are expected to grow at 7% a year for 3 years, 5% a year for the following 2 years, and 2% thereafter. Calculate the intrinsic value of the share if the cost of equity is 11%. *(4 marks)*

SECTION C TOTAL 30 MARKS

Answer TWO questions in this section.

All questions carry 15 marks each.

10 Explain the meaning of the term “behavioural finance” and explain its implications for market efficiency.

11 What is meant by a “Financial Transaction Tax” and what would be the impact on the UK economy and financial markets if it were implemented?

12 Explain the nature of “High Frequency Trading” and discuss its relative merits as an investment strategy.

13 Discuss the determinants of a country’s exchange rates.

14 Discuss the merits of investing in commodities as part of a diversified investment portfolio.