

FNCE 20005 CORPORATE FINANCIAL DECISION MAKING

2020 SEMESTER 2

TUTORIAL 2: RAISING CAPITAL - EQUITY

Answers to Section B questions to be submitted on Canvas by **10am on Monday, August 9th**

SECTION A

QUESTION 1

Demons Ltd., a pharmaceutical manufacturing and supply company, wants to build a new production facility, but it does not have enough money. It plans to raise the necessary capital through an equity rights issue (assume that it is renounceable). Demons has 72 million ordinary shares outstanding and plans to issue an additional 9 million shares, on the basis of a 1 for 8 rights issue, at a subscription price of \$1 per share. If Demons' cum-rights price is \$10, determine the following:

- (a) How much does Demons intend to raise?
- (b) Bryan Lim is currently a shareholder of Demons. How many shares must Bryan hold to get one new share?
- (c) What is the share's theoretical ex-rights price?
- (d) Why may the share price not fall to its theoretical ex-rights price on the ex-rights date?
- (e) What is the theoretical value of the right to one new share?
- (f) Sean Pinder currently owns 80 Demons shares. How many shares will he hold if he accepts the rights issue? How does the rights issue affect his wealth? Show his pre-issue and post-issue wealth.
- (g) Demons Ltd. needs the money quickly because otherwise the investment opportunity will be gone. What other methods exist for Demons to raise equity capital? Which of those methods would be best suited to meet its needs? Why? What are the disadvantages?
- (h) Demons Ltd. is considering not using an underwriter. Discuss why an underwriter may not be necessary in Demons' case and the risks associated with not hiring one.

QUESTION 2

Are Australian companies restricted in raising equity capital by way of a private placement? Is this position justified?

QUESTION 3

"The interest held by ordinary shareholders is a residual claim." Explain the meaning and significance of this statement.

QUESTION 4

Outline the main advantages of using book-building for an initial public offering of shares rather than making a fixed-price offer. What are the disadvantages of book-building?

SECTION B – ANSWERS TO BE SUBMITTED ON MONDAY 10AM

REMEMBER ALSO THAT ALL ANSWERS MUST BE HANDWRITTEN AND YOUR NAME CLEARLY WRITTEN AT THE TOP OF EACH SUBMITTED PAGE.

Mini-Case Study: Napier Port Holdings Ltd

Napier Port is a port located in the Hawke's Bay region of New Zealand. In July 2019 the Hawke's Bay Regional Council – which owned and operated the port – lodged a product disclosure statement relating to the floating and then listing of shares in Napier Port Holdings Ltd which would become the 100% owner of the Port of Napier and whose shares would then be listed on the New Zealand securities exchange (NZX). The company listed on 20 August 2019 (ticker code NPH).

In order to answer the following questions – you will also need to access the following information:

- The product disclosure statement (PDS) for the IPO which is available via the New Zealand Exchange's website [www.nzx.com]. Search for Napier Port Holding's 2019 company announcements for the statement.
 - The Napier Port's media release titled "Napier Port's shares commence trading on the NZX" which was released by the company on 20 August 2019 [also accessible via the company announcements section of the NZX].
 - Closing share price data which is readily available at Yahoo Finance. The code for the shares in Napier Port Holdings traded on the NZX is NPH.NZ and historical share prices are accessible via the "Historical Data" section.
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- (a) How many shares in Napier Port Holdings were being offered to the market via the IPO and what proportion of the company's ownership would this represent post-IPO? Who owned the remaining shares?
 - (b) What was the indicative range of subscription prices provided in the PDS? Why couldn't Napier simply provide a single subscription price for the IPO?
 - (c) What was the purpose of the IPO? How was it proposed that the funds raised were going to be utilised?
 - (d) In addition to the bookbuilding process with institutions, the IPO also had a "Priority Offer" component to it. Who was eligible to purchase shares under the priority offer?
 - (e) What was the final subscription price for NPH? Looking at the traded share price information (accessible via Yahoo finance using the securities code NPH.NZ) is there any evidence that this IPO was initially underpriced? *[Note: Use the "Close" share price to perform this analysis as it represents (in this case) the actual closing share price on the 20 August 2019]*
 - (f) What was the return on NPH shares from the time of listing until 30 June 2020? (i.e. from close of trade on 20 August 2019 to close on 30 June 2020)? Would you rate this as over-performance, underperformance or are you unable to say? *[Note: Use the "Adj. Close" price to perform this calculation as it is adjusted for any dividends paid over the life of the share]*
 - (g) How did the market perform over this same period (you can access the prices for the broad-based market index – the S&P/NZ 50 at <https://www.nzx.com/markets/indices>)? Does your answer to (f) now change?
 - (h) What does your approach in part (g) implicitly assume about the risk profile of Napier Port Holdings? Can you suggest an alternative benchmark?