

Case Analysis

Direction: Analyze the case and answer the given questions.

Malaya Inc. Corp, one of the leading producers of meat products in the Philippines, was incorporated last 2015. In the initial years of operation, it was only restricted to the collection and distribution of beef. The company is considering adding chicken and pork in its product line. The company believes that it will gain a reasonable market share by offering a diverse range of meat products.

However, this will require P150 million to fund the expansion, an amount that will greatly impact the company's liquidity if this is to be sourced internally. The company has minimal debt and its return on equity is currently at 8% but is estimated to go up to 10% with the addition of new meat products, assuming the same debt to equity ratio is maintained. The company's owners would like to achieve a return on equity ratio of 10% due to the additional risk the company will entail from the product expansion.

The company's Chief Financial Officer, Eric Manalastas, is exploring various options to raise sufficient capital. He was able to identify the following options:

1. Generate funds internally from current business operations
2. Borrow money from the bank
3. Issuance of a commercial paper
4. Issuance of bonds
5. Offer additional authorized capital stock

Eric consulted you to help him identify the best option.

Questions (30 points):

1. Identify the advantages and disadvantages of each option **(5 items x 5 points)**.

Options	Advantages	Disadvantages
<i>Generate funds internally from current business operations</i>		
<i>Borrow money from the bank</i>		

Options	Advantages	Disadvantages
<i>Issuance of a commercial paper</i>		
<i>Issuance of bonds</i>		
<i>Offer additional authorized capital stock</i>		

2. Which do you think is the best option to be taken by the company? Justify your answer. (1 item x 5 points)

Rubric for grading:

CRITERIA	PERFORMANCE INDICATORS	POINTS
Content	The answer is based on principles of economics and finance which is supported by facts and real-life examples.	3
Organization of Ideas	The answer is concise.	2
Total		5