



ZCAS University

MASTER *of* FINANCIAL SERVICES

BBF5102 INVESTMENT BANKING

TEST

25TH OCTOBER 2023

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. Section A: Question One in Section A is **compulsory**.
2. Sections B: Answer Two (2) questions from this section.
3. This examination paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A: Question 1 is compulsory and must be attempted

Question 1

Securities and Exchange Commission approves ZAFFICO listing

The Securities and Exchange Commission (SEC) has approved the registration of Zambia Forestry and Forest Industries Corporation (ZAFFICO) shares. The Initial Public Offer (IPO), opened on 11th December 2019 will involve offering ordinary shares in ZAFFICO to Zambian individuals and institutions. The IPO is scheduled to close on 21 January 2020. Similarly, following the close of the IPO and subject to meeting the minimum listing requirements, the Lusaka Securities Exchange Plc (LuSE or Exchange) has approved the listing of those ordinary shares on the Exchange. The IPO and subsequent listing of ZAFFICO on the LuSE will accord Zambian individuals and institutions an opportunity to participate in the potential growth and strategic direction of the company which is involved in the establishment, management and sale of exotic wood species. Announcing the development, Mrs. Anne Doma Gray-Kunda, the ZAFFICO Board Chairperson said through the offer of shares to the public in the company, ZAFFICO has taken the first and important step toward increasing public ownership of the company while at the same time raising capital to provide the company support for its forest plantation expansion programme.

“It gives me great pleasure to confirm that the IPO and official listing of ZAFFICO shares on the exchange was approved by the SEC and LuSE, respectively. The IPO opened on 11 December 2019 and will close on 21 January 2020. This is also a positive step toward further building the equity capital market in Zambia. The offer of shares is restricted to Zambian individuals and institutions only,” she said. “We appreciate the support we continue to receive from the Government of the Republic of Zambia, regulators, and our stakeholders. I would like to particularly thank the staff and management of ZAFFICO who have worked tirelessly to make this day possible. We are delighted to extend this opportunity to members of the public to own shares in this Zambian-owned institution,” she added.

(Source: Lusakatimes.com, 2019)

- a) For the successful floatation of the shares, one of the critical players in this whole process was the underwriter. Discuss the role of the underwriter in the floatation process. (20 marks)
- b) Instead of floating shares to the public, a company can choose to raise funding by a private placement. Explain in detail what a private placement is and suggest how ZAFFICO would have used the private placement approach. (20 marks)
- c) “The IPO opened on 11 December 2019 and will close on 21 January 2020. This is also a positive step toward further building the equity capital market in Zambia”. Discuss the

meaning of this extract and explain how entrenching the equity market can spur economic development

(10 marks)

(Total: 50 marks)

SECTION B: Attempt any TWO questions in this section

Question 2

XYZ Plc is a company listed on the Lusaka Stock Exchange. The company would like to raise capital to finance an ambitious expansion programme. The company's rating was recently upgraded to AA+ by a local ratings agency and it would like to take advantage of the ratings upgrade. It is considering issuing a 10-year convertible bonds worth K500m at a 30 percent premium to its current share price of K15 per share.

(a) How many shares will investors obtain should they decide to convert the bonds into shares?

(5 marks)

(b) Assuming that the share price of XYZ plc has risen to K25 per share at maturity of the bond, will the investors exercise the option to convert the bond or not? Explain your answer.

(5 marks)

(c) Appraise the rationale of XYX plc raising capital through the convertible bond and the reasons why the convertible bond might be attractive to the investors.

(15 marks)

(Total 25 marks)

Question 3

The principal business of Investment Banks can be broken down into the following divisions: Investment Banking Business, Trading Business and Asset Business. The staff that work in these departments are commonly as "Bankers" and "Traders". The "Trading" part of Investment Banking has traditionally been seen as more prestigious compared to the "Banking" side.

(i) Distinguish between the role played by the "bankers" and "traders" in an Investment Bank.

(15 marks)

(ii) Explain why the "trading" part of Investment Banking business was seen as being more prestigious compared to the "banking" part of the business and state whether this is still the case.

(10 marks)

(Total 25 marks)

Question 4

Mergers and acquisitions are a way of growing a business and capturing market share. It is a way also of ensuring that synergies are maintained and entrenched thereby lowering the cost of doing business and hence passing on the benefits to the consumer.

Discuss the pros and cons of mergers and acquisitions

(25 marks)

END OF TEST