



FINC2012

Intermediate Corporate Finance

Semester 2, 2022

Group Project Term Paper Instructions

For the FIVE Australian based companies listed below, your group is required to pick only one company to study.

Topic 1

- **Transportation/Airline Industry**

Company : Qantas Airway Limited

ASX : QAN

Annual Report : <https://investor.qantas.com/investors/?page=annual-reports>

Historical Stock Price : Yahoo Finance <https://au.finance.yahoo.com/quote/QAN.AX/history/>

Recent Corporate Event :

Qantas announced its acquisition of Alliance Aviation Services LTD on 5 May 2022.

Source : <https://www.accc.gov.au/public-registers/mergers-registers/public-informal-merger-reviews/qantas%E2%80%99-proposed-acquisition-of-alliance-airlines#:~:text=On%201%20February%202019%2C%20Qantas,it%20does%20not%20already%20own.>

Topic 2

- Retail Industry

Company : Coles group Ltd

ASX : COL

Annual Report : <https://www.colesgroup.com.au/investors/?page=reports>

Historical Stock Price : Yahoo Finance

<https://finance.yahoo.com/quote/COL.AX/history?p=COL.AX>

Recent Corporate Event :

Coles Group Limited was spun off from Wesfarmers on 21 November 2018 and listed as a public company on ASX.

Source : <https://www.reuters.com/article/us-wesfarmers-divestiture-coles-idUSKCN1NK11I>

Topic 3

- Telecommunication and 5G

Company : Telstra

ASX : TLS.AX

Annual Report : <https://www.telstra.com.au/aboutus/investors/financial-information/reports>

Historical Stock Price : Yahoo Finance

<https://au.finance.yahoo.com/quote/TLS.AX/history?p=TLS.AX>

Recent Corporate Event :

On 30 March 2022, Telstra announced that Vicki Brady will become the new CEO effective 1 September 2022.

Source : <https://www.telstra.com.au/aboutus/media/media-releases/CEO-retirement-and-succession#:~:text=Vicki%20Brady%20will%20be%20the,seven%20years%20in%20the%20role.>

Topic 4

- Mining Industry

Company : Fortescue Metals Group

ASX : FMG

Annual Report : <https://www.fmgf.com.au/investors/asx-announcements#>

Historical Stock Price : Yahoo Finance

<https://finance.yahoo.com/quote/FMG.AX/history?p=FMG.AX>

Recent Corporate Event :

Fortescue Future Industries (FFI) was created in 2020 as a green division. In Nov 2021, FFI signed a multi-billion-pound deal with two UK companies.

Source: <https://www.greencarcongress.com/2021/11/20211101-ffi.html>

Topic 5

- Health Care

Company : Healius Limited

ASX : HLS

Annual Report : <https://www.healius.com.au/invest-in-us/reports/annual-reports/>

Historical Stock Price : Yahoo Finance

<https://au.finance.yahoo.com/quote/HLS.AX/history?p=HLS.AX>

Recent Corporate Event : In November 2020, Healius Limited announced the successful completion of the sale of its medical centre business. The BGH capital managed fund acquired the medical centre business.

Source : <https://www.sharecafe.com.au/2020/11/24/healius-health-offloads-medical-centres-to-private-equity/>

Note:

The link to where you can obtain the historical data (e.g. balance sheet, cashflow statements, stock price) of the companies is provided. You do not have to use all of them. You can make your own discretionary decisions on sample size, sample period, data frequency etc. Please explain everything clearly and provide some reasoning. You are also encouraged to search for other data to perform your own analysis. You can make your own assumptions necessary for your analysis. Provide some justifications of the assumptions imposed. You can make simplified assumptions wherever applicable and state them clearly. In the end, you can discuss the limitations associated with this study.

Guideline Questions

- 1) Give an overview of the company. Discuss industry, market and macro-economic/policy environments and discuss how these will affect the company's future performance. Discuss the social economy environment that the company is operating in, both locally and internationally.
- 2) Overview of the company's capital structure. The composition of debt and equity. The compositions of corporate bond, bank loans, short vs long term debt. Credit rating of the firm, debt financing cost. Equity issuance, seasonal offering, portion of preferred stock, stock split or any other equity events. Construct a group of peer companies, present the difference of capital structure between the firm you study and the peer group.

[Lecture 7 overview of corporate financing]

- 3) Based on your analysis in 2), discuss the company's financing strategy. Do you think the company's CFO should adjust the company's capital structure? Why or why not?

[lecture 8 and lecture 9 capital structure theory]

- 4) Overview of the recent trend of company's CEO's (i.e. top management) compensation structure and discuss how the structure resolves/worsens agency problem. Construct a group of peer companies, present the difference of the compensation schemes between the firm you study and the peer group. And make some comments on it.

[lecture 6 Corporate Governance and Agency Problem]

- 5) Estimate WACC (weighted average cost of capital).
 - a. Estimate beta with one factor(market risk) CAPM model. You are free to adopt more complicated multiple factor risk models.
 - b. Forecast capital structure based on historical data. Incorporate new information if applicable.
 - c. Retrieve cost of debt based on historical bond yield/loan interest rate data. Incorporate new information if applicable.

[lecture 2 and lecture 8]

- 6) Project the company's future free cash flows based on the historical data from recent income statements. Incorporate new information if applicable. Your views in 1), 3) and 4) may affect your forecast of the growth rate here.

[Lecture 3 & Lecture 10 Firm valuation Example Rio-Corporation]

- 7) Perform a Discounted Cash Flow analysis and estimate the company's intrinsic value. You can perform sensitivity or scenario analysis and present your results graphically.

[Lecture 3 & Lecture 10 Firm valuation Example Rio-Corporation]

- 8) Evaluate the firm's shares and make a recommendation to a potential investor.
- 9) Overview of the company's payout policy. Dividend or stock repurchases. Provide some comments on the company's payout policy. Construct a group of peer companies, present the difference of the payout policies between the firm you study and the peer group. And make some comments on it.

[Lecture 11 dividend policy]

- 10) Discuss the recent corporate event of the company. Discuss the background of the corporate event. Discuss the impact of the event on the company, market reaction to the event and your view on how this may affect the company's performance in the long run. You may consider to compare the pre and post data of the company's performance etc to draw some inference.

You can pick 5-6 questions from the 10 questions listed above. Some of the questions are sequential, for example, if you pick 3), you have to pick 2). You do not have to answer all sub-questions as some questions may not be applicable to some firms.

You are expected to submit a term paper instead of simply laying down the questions and answers. The guided questions are meant to inspire you on what are the relevant corporate finance topics that can be covered.

You can treat this term paper as a report sent from you (a financial advisor) to your client who is considering investing/withdrawing investment from this company. Acquire the necessary information and provide your professional analysis to help the client in decision making.

If you have some other questions which are related to our course and you are keen to study about, you can pick your own question to answer. You are limited to pick one such question on your own. Please state your own question clearly in the paper.