



**STRATHMORE BUSINESS SCHOOL  
BACHELOR OF FINANCIAL SERVICES  
SPECIAL EXAMINATION  
AMS 4201: INVESTMENT BANKING**

**DATE:** Tuesday, 22<sup>nd</sup> April 2025

**TIME:** 10:00 – 12:00

**Instructions:**

Answer Question **ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

a). An Initial Public Offering (IPO) is a process where a company offers its shares to the public for the first time, typically to raise capital for expansion, reduce debt, or enhance public awareness of the company. However, not all IPOs are successful and some companies struggle after going public.

**Required:**

Provide a case study of a recent failed IPO and highlight the factors that contributed to its underperformance **(10 marks)**

b) Discuss the challenges Kenyan financial institutions face in enforcing a "Chinese Wall" within their operations, especially in light of increasing digitalization and interconnectedness of departments. **(3 marks)**

c) You are a financial analyst at SIB Investment Bank, and your team is evaluating an investment opportunity in TechSpark Ltd, a leading technology firm recognized for its innovative products and strong growth potential. As part of the due diligence process, you have been assigned the responsibility of conducting a discounted cash flow (DCF) valuation to determine the enterprise value and implied share price of TechSpark Ltd. The company has shared their projected EBITDA and working capital forecasts for the next five years. Your task is to perform the DCF analysis to assess the investment's value and evaluate its potential for returns.

Year	EBITDA	Working capital changes	Depreciation
1	2,000,000	(100,000)	100,000
2	2,500,000	120,000	100,000
3	3,000,000	150,000	100,000
4	3,500,000	(180,000)	100,000
5	4,000,000	200,000	100,000

Additionally, the company's management has shared the Weighted Average Cost of Capital (WACC), the Terminal Growth Rate, and the Terminal Value Multiple they believe are appropriate for the business.

- ✓ Weighted Average Cost of Capital (WACC): 10%
- ✓ Terminal Growth Rate: 3%
- ✓ Terminal Value Multiple: 10x
- ✓ 1,000,000 outstanding shares

Assume that the company's free cash flows to the firm are expected to stabilize after Year 5. Using the provided financials and assumptions, perform a discounted cash flow (DCF) valuation for TechSpark Ltd: Note: Show all the necessary calculations and steps. Note: Assume the firm is unlevered and the tax rate is 25%.

**Required:**

- i. Calculate the Free Cash Flow to Firm (FCFF) for each year. **(8 marks)**
- ii. Compute the Present Value of FCFF for each year. **(3 marks)**
- iii. Determine the Terminal Value using the perpetuity formula and Multiple **(3 marks)**
- iv. Calculate the Enterprise Value by (use average Terminal value). **(2 marks)**
- v. Calculate the implied share price of TechSpark **(1 mark)**

**[Total = 30 Marks]**

## QUESTION TWO

a) The merger between NIC Bank and Commercial Bank of Africa (CBA), resulted in the formation of **NCBA Group**. This merger is considered a successful "merger of equals," as both banks contributed equally to the formation of the new entity. While many factors influenced the success of the merger, one of the most important aspects was the alignment and integration of the cultures of both banks.

**Required:**

Discuss the factors that contributed to the success of the merger between NIC Bank and CBA in forming NCBA Group, specifically the role of organizational culture. **(8 marks)**

b) Discounted Cash Flow (DCF) and Comparable Company Analysis are two common valuation methods used in financial modelling.

**Required:**

Compare and contrast the Discounted Cash Flow (DCF) method and the Comparable Company Analysis method of valuation. **(12 marks)**

**[Total = 20 Marks]**

## QUESTION THREE

a) The management of Standard have prepared the following projections for three years in order to apply for financing to start a new restaurant. As of December 2019, they have a cash investment of sh.120, 000, sh. 30,000 in equipment and have received a loan of sh. 75,000 from

their savings and credit cooperative. Operations are set to begin in January 2020. The following assumptions can be made:

1. Sales are projected to be sh. 100,000 in the first year and will increase by 10% per annum.
2. Direct costs are estimated to be 30% of the sales.
3. Operating expenses (excluding depreciation and interest) are 35% of yearly sales.
4. Depreciation is on a straight-line basis over 5 years. There is no salvage value.
5. Based on industry norms, the following has been suggested:
  - (i) Ending inventory: 25% of sales.
  - (ii) Ending accounts receivable: 10% of sales.
  - (iii) Ending accounts payable: 10% of cost of sales.
6. There is a monthly payment of sh. 1000 as interest and 1,500 in loan principal.
7. Taxation of 30% per annum is paid in the same year in which it is incurred.

**Required:**

Prepare an integrated set of financial projections for year one (31<sup>st</sup> December 2020).

- |  |                  |
|--|------------------|
| (i) Statement of Profit and Loss       | <b>(8 marks)</b> |
| (ii) Statements of financial position. | <b>(6 marks)</b> |
| (iii) Statement of Cashflow.           | <b>(6 marks)</b> |

**[Total = 20 Marks]**

#### **QUESTION FOUR**

a) A mid-sized Kenyan manufacturing firm is evaluating whether to raise KES 1.5 billion via a corporate bond or take a long-term loan from a local bank. The company is growing but has a moderately leveraged balance sheet.

**Required:**

Using relevant examples, analyze the key considerations the company should assess before choosing between a debt offering and a commercial bank loan in the Kenyan context.

**(6 marks)**

b) XYZ Ltd, a fast-growing agribusiness firm headquartered in Eldoret, Kenya, specializes in large-scale horticultural production and exports. To fund its strategic expansion into East African regional markets (including Rwanda, Uganda, and Tanzania), XYZ Ltd is seeking to raise KES 2 billion. The firm is considering either issuing equity through the Nairobi Securities Exchange (NSE) or raising long-term debt through capital markets or commercial banks. XYZ Ltd has approached an investment bank for professional guidance on the most viable financing strategy.

**Required:**

Compare equity financing and debt financing as available through Kenyan capital markets

**(8 marks)**

c) Based on the company's size, sector, and expansion goals, advise XYZ Ltd on the most appropriate financing option.

**(6 marks)**

**[Total = 20 Marks]**

## QUESTION FIVE

a) In Kenya's evolving financial markets, businesses with ambitious growth strategies often require significant capital to fund expansion, innovation, or debt restructuring. Whether through issuing shares to the public (equity offering) or borrowing via corporate bonds (debt offering), such companies rely on financial intermediaries to navigate complex regulatory frameworks and market dynamics. Investment banks have become increasingly instrumental in this process.

**Required:**

Using relevant examples, discuss the pivotal role investment banks play in facilitating security offerings through financial markets. **(8 marks)**

b). In the Kenyan financial market, large corporations and state-owned entities such as Kenya Airways, Kenya Power, and real estate developers often seek substantial funding. To manage risk and increase efficiency, investment banks offer capital markets services such as loan syndication and asset-backed securities (ABS). These tools enable firms to access large pools of capital while balancing risk exposure across multiple investors.

**Required:**

Explore the difference between loan syndication and asset-backed securities within the domain of Capital Markets Services in Investment Banking. **(6 Marks)**

c) Kenya's financial markets have grown significantly over the past decade, supported by institutions such as the Nairobi Securities Exchange (NSE), Capital Markets Authority (CMA), Central Bank of Kenya (CBK), and an expanding number of banks, insurance firms, SACCOs, and fintech platforms. These players support economic growth by channeling savings into investments, managing risk, and promoting transparency in capital flows.

**Required:**

Using a diagram, discuss the key players in the Kenyan financial markets, highlighting their roles **(6 marks)**

**[Total = 20 Marks]**