CORPORATE FINANCE
An Asian Perspective

Noryati Ahmad
Eric H. Y. Koh
Chan Sok Gee
Zulkufly Ramly
Nor Zarina Abu
Khairatun Hisan Idris
Catherine S. F. Ho
Chong Jin Yoong

Companion Resources
This is a comprehensive textbook catered for students in Accounting, Business, Economics and Finance pursuing the subject at the degree level, mostly in the senior years. It aims to equip students with the concepts, principles and approaches of corporate finance, and thus enable them to solve problems related to this area. Students are exposed to the firm's financing and investing activities. The first part of the book helps students to refresh their understanding of Financial Management. It then progresses to the core topics of Corporate Finance. The book also includes special topics such as mergers and acquisitions as well as behavioural finance.

**Key Features**

- Tailored for Corporate Finance syllabuses at universities.
- Written in simple language with illustrated solutions for better comprehension.
- Interspersed with case studies to help students relate the theories and concepts to the real world.
- Provides a chapter summary and list of key formulae at the end of each chapter for students to recap the main points and concepts.
- Reinforces students' understanding through ample concept questions and problem-solving questions.

**Noryati Ahmad** is an Associate Professor at the Faculty of Business and Management, Universiti Teknologi MARA, Malaysia.

**Eric H. Y. Koh** is a Senior Lecturer at the Faculty of Business and Accountancy, University of Malaya, Malaysia.

**Chan Sok Gee** is a Senior Lecturer at the Faculty of Business and Accountancy, University of Malaya, Malaysia.

**Zulkufly Ramly** is an Assistant Professor at the Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia.

**Nor Zarina Abu** is a Senior Lecturer at the Faculty of Business Technology and Accounting, UNITAR International University, Malaysia.

**Khairatun Hisan Idris** is a Senior Lecturer at the Faculty of Business Technology and Accounting, UNITAR International University, Malaysia.

**Catherine S.F. Ho** is a Professor at the Faculty of Business and Management, Universiti Teknologi MARA, Malaysia.

**Chong Jin Yoong, CFA**, is an Instructor at the Asian Banking School, Kuala Lumpur, Malaysia.
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Dr Noryati Ahmad
Dr Eric H. Y. Koh
Dr Chan Sok Gee
Dr Zulkufly Ramly
Nor Zarina Abu
Khairatun Hisan Idris
Prof Dr Catherine Ho Soke Fun
Chong Jin Yoong
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## PART I  
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### 1  
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**LEARNING OUTCOMES**

At the end of this chapter, you should be able to:

- Outline the three key categories of corporate finance decisions.
- Discuss the goal of corporate financial management.
- Explain the concept of agency problem and costs.
- Discuss the importance of the financial market to a firm.

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**Case Study**

**Corporate Finance: Yearn or Yawn?**

Many students and graduates yearn for corporate finance jobs in top investment banks, consultancy or advisory firms. Corporate finance jobs seem to be where the money and adrenaline flow and hence, that is where the best brains rush to. Seen as being exciting, lucrative and prestigious, it attracts graduates across fields as diverse as accounting, computer science, economics, engineering, finance, law and mathematics, to name a few. Despite not really knowing what a corporate finance career entails, many imagine to join in the rat race. Moreover, one cannot help but be stirred up by the glamorous and high-flying lifestyles portrayed in blockbusters such as *Wall Street* and its sequel, *Wall Street: Money Never Sleeps*.

Conversely, many others see corporate finance as being utterly boring, cold or simply insurmountable. They yawn at the prospect of having to see dry and boring formulae which seem terribly cold and impersonal. They look at disdain the prospect of being infused with the *Wall Street* character, Gordon Gekko's infamous saying that “greed is good”. And many others tremble at the prospect of having to cope with seemingly complex, unending and incomprehensible equations and theories loaded with jargon.

Whether you belong to the former or the latter (and bought this book only because you had to for an mandatory course!), we hope you will embark on this journey with an open mind. Based on our experience in teaching this subject, we have seen students who had previously yearned for the wrong reasons move closer to reality. We have also seen, to our delight, students who previously yawned unmemorably (mainly from their seniors' inaccurate descriptions) being appreciative of their newfound relevant knowledge. We hope you will join us in unravelling this myth by reading on and discovering the true rewards of learning corporate finance.
Leading investment banks (e.g. Deutsche Bank and JP Morgan) describe their corporate finance offerings in different ways, levels of clarity and amount of detail. They largely revolve around three key areas: (1) advisory and compliance, (2) evaluation of mergers and acquisitions, and (3) advice on corporate restructuring.

First, when firms seek to raise capital or funds, it usually issues shares (to those who wish to own part of the firm) or bonds (to those who wish to lend money to the firm). Such exercises involve lots of effort and time and require the expertise of the corporate finance teams of investment banks. For instance, it calls for meticulous planning, evaluation of investors and lenders’ sentiments, promotion of the fund-raising exercise and also complying with regulatory requirements. Second, a firm may wish to consider combining with (merging) or buying (acquiring) another firm. This involves corporate finance experts’ assessment of both the current and the proposed targeted firm, from various perspectives such as financial strength, compatibility, market feasibility, shareholder buy-in and regulatory considerations. Third, a firm may also consider restructuring itself through corporate exercises such as reorganising or splitting itself into a few units or even streamlining itself by removing some layers of complex organizational structures.

Besides investment banks, corporate finance is also offered by major advisory firms such as public accounting firms, consultancy firms and lawyers, to name a few. Public accounting firms (e.g. Deloitte, Ernst and Young, KPMG and PriceWaterhouseCoopers) help clients by providing deal solutions, advice and market knowledge. Consultancy firms (e.g. Bain Consulting, Boston Consulting Group and McKinsey) help the Chief Financial Officer to maximize the firm’s value by advising on appropriate corporate strategy-financial structure alignment. Lawyers provide legal advice on pertinent filing, compliance and legal due diligence. Some firms specialize in selected aspects of corporate finance. These are often referred to as the ‘boutique’ firms.

In addition, a firm also engages in its own internal corporate finance matters, some through a dedicated corporate finance function, others through their in-house Finance department. One finance professor Ashwath Damodaran—who is highly respected among both academia and practitioners—asserts that “everything that a business does fits under the rubric of corporate finance” because all firms need to invest their resources, obtain the suitable type and mix of financial resources and to return cash to investors if good investments are not available” (Damodaran, 2011, p. 1).

The Institute of Chartered Accountants of England and Wales attempts to provide a more comprehensive working definition. It suggests that corporate finance deals with how a firm may raise funds in order to “create, develop, grow or acquire businesses” (Institute of Chartered Accountants of England and Wales, 2017). It often relates to some deals or transactions which cause change of ownership or a shareholder’s base. It also deals with underwriting, purchase of equity exchange (related warrants) or debt.
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