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| **Assessment Format:** | CW - Essay |
| **Mode of Submission:** | Canvas: Online submission via CanvasIt is not recommended to submit via the Canvas App due to some limitations in the App functionality. We would suggest instead that submission is made on a browser from a computer or mobile device.It is not recommended that you submit your assignment or take a quiz on a cellular or satellite connection. This is because loss of internet connection during assessment is most commonly associated with these services, although we understand that sometimes this is the only option. Wherever possible, we would recommend that assessments are submitted or undertaken on WiFi or hardwired (ethernet) connections.Large files are best submitted on a hardwired internet connection (i.e., not WiFi). |
| **Weighting:** | This assessment is worth 100% of the Module mark |
| **Assessment Level:** | 6 |
| **Element Learning Outcomes:** | *The element learning outcomes for this assessment are: 1-4* |
| **Marking Approach:** | Fine-graded |
| **Feedback Release Date:** | 11/05/2022 |

**Assessment Details**

Assessment Task Detail and Instructions:

Submission deadline: 2pm, 1th April 2022

**Individual assignment brief 010: case study**

**Suppose** **you were successfully appointed as the CFO for**[**AstraZeneca (Links to an external site.)**](https://www.astrazeneca.co.uk/)**Plc,**a science-led biopharmaceutical company based in Cambridge, UK.

AstraZeneca has made a significant growth in recent years, even during the COVID pandemic. In December 2020, AstraZeneca Plc successfully collaborated with Oxford University to produce COVID-19 vaccine and received approval from the United Kingdom for the emergency use of the Oxford–AstraZeneca COVID-19 vaccine. However, given the uncertainty caused by the Pandemic, the company plans to diversify its risk by investing in a new industry. At the same time, the board of director has made an agreement to sell one of its subsidiaries to an American company headquartered in New York in September 2022 and concerns the foreign currency risk that the company might expose to.

Financial information can be obtained from the [OSIRIS (Links to an external site.) (Links to an external site.) (Links to an external site.)](https://anglia.primo.exlibrisgroup.com/discovery/fulldisplay?vid=44APU_INST:ANG_VU1&docid=alma997504320102051&context=L) database accessible through the Anglia Ruskin University Library to an external site or via Bloomberg, annual reports, official company website or other professional resources. It would be better to obtain the most recent five years’ information as this will make your analysis more relevant.

**Required:**

**As the CFO of the Company**, you are required to write a report to the senior management team - fully referenced, and address the following key decisions:

1. **Investment appraisal**:

Suppose Eagle Logistic Company is a long-established supply chain company in the UK and the board believes that acquiring Eagle Logistic Company would add substantially to the distribution of the business. Note: to simply the analysis, Eagle Logistic Company is a hypothetical company in private sector so please use the following information to help you evaluate the investment using asset beta technique. However, the board of directors is concerned the proposal to expand the company through its investment in Eagle Logistic Company.

The board of directors wants to explore whether Eagle Logistic Company is worthy of investment. Eagle Logistic Company is currently all equity based. You are tasked to provide justifications whether the Company should invest in this project, with consideration of the information and financial performance of AstraZeneca Plc and the given information below.

You are to critical evaluate the potential investment using capital asset pricing model, analyse potential implications of the investment on AstraZeneca Plc and discuss asset beta in investment appraisal.

You are provided the following information. To assess the operating risk of the company, the asset beta extracted from other proxied companies in the same industrial sector of Eagle Logistic Company are provided below.

1. Greg Morrison is financed by 30% debt and 70% equity and their equity beta is estimated as 1.34.
2. TK Logistic company finances its company using 40% debt and 60% equity with an equity beta of 1.16. The company has 55% of its current value related to higher risk projects. The risky projects have been estimated that they are 30% more risky than those of similar projects.
3. Zeta company has an equity beta of 1.20. Its capital structure is two thirds equity and one third debt. The company has two divisions of operations, A and B. Division A has similar operations but those of B operation are 40% more risky than those of A. It is estimated that Division A accounts for 60% of the total value of Zeta company.
4. CM company is an all-equity company. Its equity beta is 1.05. It has been estimated that 35% of the current value of the company is related to higher risk projects, these projects carry a beta of 1.26. The remaining projects have a similar risk.

Additional information is also available:

* Assume a corporation tax rate of 30% and the project is expected to generate 18% return.
* Given that the Company will finance its expansion by debt and equity finance, the new capital structure of the Company could be 50% debt and 50% equity.
* The return on Treasury bill is 4.5% and the market return is 11%.

**In this section, please ensure you cover the following areas:**

* As the CFO, critical evaluate the potential investment using capital asset pricing model
* Analyse potential implications of the investment on the case Company
* Provide justifications whether the case Company should invest in this project, with consideration of the chosen company’s financial performance
* Discuss asset beta technique in investment appraisal before making final recommendation

**Note: Workout of the appraisal shall be provided in the appendix, not in the main text. In the main body of your work, please focus on narrative discussion with highlight from the calculation in the appendix.**

1. **Foreign currency risk management:**

Recently, the board of director has made an agreement to sell one of its subsidiaries to an American company headquartered in New York in September 2022. The treasury department expects to receive $6 million by the end of August in 2022. Due to the Pandemic and general economic uncertainty around the world, there is some concern that the dollar will weaken against the pound although this is not the consensus of the whole management team. However, they all agree that a currency hedge would be sensible. It is now 1st of March 2022.

The board of directors asks you to clearly show the financial implication of a 10% weakening of the dollar and which external hedging strategy would benefit the Company the most. You are going to discuss the importance of foreign currency risk management for the company, critically analyse different hedging techniques, such as forward hedging, money market hedging, futures and options hedging strategies and recommend the board of directors the most suitable hedging strategy for the company.

You are provided the following information:

Sterling Spot rate:                                  $1.2612 - $1.2645

Sterling 6-months forward rate:         $1.2657 - $1.2705

Money market rates (Annual rates):

                             Deposit                  Borrow

GBP                        2.3%                      4.7%

USD                        5.5%                      8.3%

The company obtains a six-month future quotation of $1.2698/£1, contract size £62,500.

Assume the futures price when the contract is settled is the same as the spot exchange rate.

The quoted option premiums for US$ and GBP£ showed as follow:

Option prices (cents per £, payable on purchase of the option, contract size £31,250):

Strike Price          Calls                Puts

   $                       August             August

                1.2690                 0.80               1.75

        In this section, please ensure you cover the following areas:

* As the CFO, critically discuss the importance of foreign currency risk management for the case Company
* Critically analyse different hedging techniques, including forward hedging, money market hedging, futures, and options hedging strategies, etc.
* Recommend the board of directors the most suitable hedging strategy for the case company using the calculation results in the appendix.

**Note: Workout of the appraisal shall be provided in the appendix, not in the main text. In the main body of your work, please focus on narrative discussion with highlight from the calculation in the appendix.**

**Assignment submission guidance**

1. You should use either Arial or Times New Roman 12 font sizes and use double spacing throughout. Use `justified’ margin whenever possible and centre all graphs, charts, figures, tables, etc. You shall create your own small tables, rather than copying annual report for example.
2. You should adhere to the 3,000 word limitation. **Any misuse of tables with aims to avoid word limit will be subject to penalty.**There is ±10% tolerance on word limit, but in worse scenarios of deliberately using tables to avoid word limit could lead to more penalty. There will be a 10% penalty if the assignment is too short.
3. The actual **word count**excludes tables, charts, graphs, formulas, appendices and reference list. In sum, the word count refers only to the narratives from introduction to conclusion. Table can be used to present numbers and some brief points.
4. You should provide an extensive list of **references**comprising a combination of: academic journal articles, textbooks, good quality periodicals such as FT or WSJ or The Economist, etc. Good quality websites will be helpful, but please refrain from using Wikipedia or Investopedia heavily in your work.
5. We treat assessment offence seriously at ARU (more information is available at [http://web.anglia.ac.uk/anet/academic/qad/module\_guide/modguide\_assessmentoffences.phpLinks to an external site.Links to an external site.](http://web.anglia.ac.uk/anet/academic/qad/module_guide/modguide_assessmentoffences.php)). All the resources must properly cited in your assignment. The formatting must follow Harvard Referencing guideline (6th Edition) for both the construction of the reference list and the proper in-text citation formats – pay attention to §3.1 in particular. You can obtain the guide here: [http://libweb.anglia.ac.uk/referencing/harvard.htmLinks to an external site.Links to an external site.](http://libweb.anglia.ac.uk/referencing/harvard.htm)
6. If you have any queries regarding Canvas submission, please contact our faculty admin team directly via BL-SEFL@anglia.ac.uk.
7. **Marking Criteria for Element 010**

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|  | **Section** | **Content** | **Mark** | **Learning Outcome** |
| **1.** | **Introduction** | **·        Brief introduction of the company’s current situation from the CFO’s perspectives.****·        A concise summary of issues addressed in the assignment, your main findings, and the structure of the report.** | **5%** |  |
| **2.** | **Investment appraisal** | **·        Critical evaluate the potential investment using capital asset pricing model****·        Analyse potential implications of the investment on the Company****·        Provide justifications whether the Company should invest in this project, with consideration of the chosen company’s financial performance****·        Discuss asset beta in investment appraisal before making final recommendation** | **30%** |  |
| **3.** | **Foreign currency risk management** | **·        Discuss the importance of foreign currency risk management for the company****·        Critically analyse different hedging techniques, such as forward hedging, money market hedging, futures and options hedging strategies.****·        Recommend the board of directors the most suitable hedging strategy for the company using the calculation results in the appendix** | **35%** |  |
| **4.** | **Conclusion** | **·        Clearly presented conclusions based on the preceding analysis****·        Make relevant suggestions and recommendations** | **5%** |  |
| **5.** | **Reference and presentation** | **·        Follow Harvard Reference guide.****·        Adequate references and properly referenced resources.****·        Professional presentation.** | **10%** |  |
| **6.** | **Appendix** | **·        Workout for investment appraisal****·        Workout for foreign currency risk management** | **·        4%****·        11%** |  |
|  | **TOTAL MARKS:** |  | **100%** | **1,2,3,4** |

Feedback Arrangements:

Your Module Tutor is available to support you in preparing your group assignment. As this is the first time to assess this module using this type of assignment, there is no pass sample available. However, your tutor will provide assignment support in teaching sessions and use discussion forum on Canvas to answer questions too. Please also note that you are welcome to submit drafts of your work for comments at any time up until the end of Week 10, while your tutor would be able to provide feedback on 20% of your draft work. Some verbal feedback sessions will be offered in teaching Week 11 and 12.

Feedback on the final submission on Canvas will be provided in the text comments on Canvas.