



## LSE-PKU Summer School 2018

### LPS-FN209 | Corporate Finance in a Global World: Challenges and opportunities

#### Instructor

**Dr Moqi Xu**, Lecturer, Department of Finance, London School of Economics and Political Science. Dr Moqi Xu specialises in Corporate Finance and Corporate Governance. Her main research interests are the effects of regulations and contracts on financial decisions of corporations, such as capital raising or investment. She currently works on a comparison of rights offering regulations around the world and various studies on the effects of CEO employment contracts. Dr Xu joined the LSE in 2011 with a PhD from INSEAD, France. Prior to her academic career, she worked as a consultant with McKinsey.

#### Course Summary

Financial markets around the world have become more accessible than ever before. And yet every country is different, with its own set of financial, accounting, legal and fiscal systems, and its own cultural norms. Can we use the same corporate finance concepts when we cross borders?

This course introduces students to corporate financial decision making in an international context. We will study the most important financial decisions the corporations make: capital structure, risk management, capital raising, mergers and acquisitions. These decisions will be embedded in a global setting with its own challenges of political and exchange rate risk and differing corporate governance standards. Along the way, students will learn about the legal framework of the firm as well as more technical aspects of valuation and risk management techniques.

The aim of this course is to introduce students to key concepts in international corporate finance and to enable them to formulate strategies in international finance and investment. As an introductory course, it is not necessary that students have a background in Finance. Expect this to be an interactive class: we will take the perspective of corporate financial managers and discuss actual case studies together. These are set around the world, with

a focus on Asia: we will examine real decisions made in India, Russia, Venezuela, Japan, Vietnam, and China. In addition, students will formulate strategy recommendations for real companies, with the goal of developing real shareholder proposals.

Afternoon classes will be dedicated to deepen students' understanding of the technical aspects of international corporate finance.

### **Class readings**

Reading materials are provided in a course pack. There is no assigned textbook, but interested students can consult the following textbooks (not mandatory):

- Ross, Westerfield, and Jaffe, *Corporate Finance: Core Principles and Applications*, Global Edition, 3<sup>rd</sup> edition, McGraw-Hill 2011. (RWJ)
- Eiteman, Stonehill, and Moffett, *Multinational Business Finance*, 13<sup>th</sup> ed., Prentice Hall 2013. (ESM)
- Ian Giddy, *Global Financial Markets*, Heather 1994. (G)

### **Prerequisites**

None

### **Course Structure and Assessment**

There will be ten lectures (4 hours each) and nine classes (80 minutes each). All of the scheduled teaching sessions will include a mixture of traditional lectures and in-class group work, with substantial time devoted to discussion of case studies.

Assessment will be based on an assignment as a mid-term examination (worth 50% of final mark) and a final examination (worth 50% of final mark). For the assignment, students study an assigned real company and develop a recommendation for its strategy. Details about the assignment will be given at the beginning of the course. The final examination will consist of a real case which students will be asked to evaluate using the tools and concepts learned in class.

The assignment and the final examination questions will require a mix of the following: – Knowledge of the relevant debates

- Analytical skills rather than purely descriptive skills
- Awareness of differing perspectives
- Use of case study material where relevant
- Easy and comprehensible narrative style
- Coherence of essay structure and argument.

### **Course Overview** (preliminary)

#### **Session 1: Introduction**

What are the financial decisions that corporations make? What is the international legal

and economic context in which they make these decisions? This introductory session outlines the main issues that the course will focus, gives details on the assignment, and introduces the concept of risk.

*Tutorial:* Mathematics for Finance

## **Session 2: Risk**

*Case: Ngue An Tate & Lyle Sugar Company (Vietnam), Esty, Lysy, and Ferman HBS 9-202-054*

Types of risks of global investments, in particular exchange rate risk, and techniques to manage risk. We will discuss types of risks using the example of Tate & Lyle's investment into a sugar mill in Vietnam.

*Tutorial:* Basic accounting for Finance

*Reading:* Froot, Scharfstein, Stein (1994): A Framework for Risk Management. Harvard Business Review 72, 91-102.

*Optional background reading:* ESM chapters 10-12, RWJ chapters 10-12

## **Session 3: Budgeting and Investments**

*Case: Ngue An Tate & Lyle Sugar continued*

Introduction to valuation techniques and their usage in an international context: calculating cash flows, discount rates, scenario analysis. We will use these techniques to evaluate investment options – both from the point of view of a farmer and Tate & Lyle.

*Tutorial:* Factor models and risk adjustment

*Reading:* James and Koller (2000): Valuation in Emerging Markets. McKinsey Quarterly 4, 78-85.

*Optional background reading:* RWJ chapters 6-9, ESM chapter 13

## **Session 4: Ownership**

*Case: OAO YUKOS Oil Company. Salter HBS 9-902-021*

An overview of corporate governance structures around the world: shareholder rights, ownership structure, legal systems. YUKOS, in 2001, is a company that tries to shake off governance scandals of its past and to introduce best practice governance standards.

*Tutorial:* Discounted Cash Flows

*Reading:* La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998): Law and Finance. Journal of Political Economy 106, 113-1155.

Note on Corporate Governance Systems: The United States, Japan, and Germany. HBS case note 9-292- 012

Becht et al. (2008): Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes UK Focus Fund, Review of Financial Studies 22, 3039-3129

*Optional background reading:* RWJ chapter 4, ESM chapter 2

## **Session 5 & 6: Capital Structure**

*Case: Petrolera Zuata, Petrozuata C.A. Esty HBS 9-299-012*

What is the optimal mix of debt and equity? Starting from the Modigliani and Miller's argument that capital structure is irrelevant, we will show what trade-offs firms face in this decision and how asymmetric information may change those. We will then discuss the capital structure decision for Petrozuata, a crude-oil development project in Venezuela.

*Tutorials:* Valuation

*Reading:* Graham and Harvey (2002): How do CFOs Make Capital Budgeting and Capital Structure Decisions? *Journal of Applied Corporate Finance* 15, 8-23.

*Optional background reading:* RWJ chapters 13-15

## **Session 7: Mergers and Acquisitions**

*Case:* *Yanzhou Bids for Felix Resources, Moffett, Thunderbird TB0279*

Mergers and acquisitions are large investments, and yet returns to them are often negative. What are the reasons behind it? How to structure and pay acquisitions, and how to negotiate? Yanzhou's 2009 bid for the coal mining company Felix Resources was the largest takeover bid for an Australian company ever made by a Chinese bidder. In addition to the usual uncertainty around acquisitions, changing economic situations in both countries, volatile commodity prices, and the need for approval by the Australian regulators are some of the factors we will focus on. In light of these concerns, should Felix's shareholders accept Yanzhou's offer?

*Tutorial:* Technical debrief of cases

*Optional background reading:* RWJ chapter 21, ESM chapter 18

## **Session 8: Payout Policy**

*Case:* *Koito Manufacturing, Ltd. HBS 9-291-027*

Dividends are one way for firms to return earned profits to shareholders. Share repurchases is another. We will discuss the advantages and disadvantages of different payout policies in this class. The Koito case demonstrates trade-offs that firms with different types of shareholders face.

*Tutorial:* Hedging

*Reading:* Petit (2001): Is a Share Buyback Right for Your Company? *Harvard Business Review* 79, 142-147.

*Optional background reading:* RWJ chapter 16, G chapters 7-8

## **Session 9: IPOs**

*Case:* *PetroChina, Dyck and Huang. HBS 9-701-040*

The initial public offering (IPO) is an important step in the life of each listed company. PetroChina illustrates the IPO process and potential difficulties that international issuers face.

*Tutorial:* Wrap-up

*Reading:* Ritter and Welch (2002): A Review of IPO Activity, Pricing, and Allocations.  
Journal of Finance 57, 1795-1828.

*Optional background reading:* RWJ chapter 19

## **Session 10: Conclusion**

In the last session, students will present their projects, before we wrap-up and conclude the course.