ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 1: Corporate finance for treasury

November 2025

This is a past paper for Unit 1 of the Diploma in Treasury Management (AMCT)

Based on the syllabus assessed from 1 August 2022.

INTRODUCTION

This past paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the Diploma in Treasury Management assessments. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assessment. It contains a past exam for the specified unit as well as past answers. Ideally, students should have completed the majority of their Diploma in Treasury Management studies for Unit 1 before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 25 minutes reading time. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. Although the past exam in this guide is typical of a Diploma in Treasury Management assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam.

To prepare properly for the examination, candidates students make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

ASSESSMENT TECHNIQUE

This paper is a professional paper that as well as testing theory expects application to practice at a managerial level.

The best way to approach written assessments is to work methodically through the questions. You should not spend too much time on any one question if you are struggling to think of an adequate answer. Remember you can flag any question to come back to later should you want to continue your way through the exam.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out. You will be able to make rough workings on a piece of paper during the exam and on screen should you wish to, however these will not count towards your final mark.

ASSESSMENT INFORMATION AND TEST SPECIFICATION

The Diploma in Treasury Management assessments for units 1 and 2 each have four written questions, of which you must answer three, and will involve a pre-seen case study workbook that is released no later than two weeks prior to the assessment date. The papers will be split into sections a and b and can be made up of either one case study or two case studies; each unit exam is worth a total of 100 marks. For the purpose of this past paper the questions follow each case study.

Diploma in Treasury Management assessment test specification:

Section	Amount of questions	Marks available
Section A	one case study based question	50
Section B	three shorter case study based questions, of which candidates chose to only answer two	50
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 25 minutes reading time.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this past paper, you may use a non-programmable scientific calculator.

In order for you to determine how well you have performed, sample mark schemes are provided after each question. Please note that these are mark schemes only and not model answers. They provide lists of points that are expected to be covered within answers, although the content of your answers must be much more detailed (satisfying the command word used in the question, for example

‘analyse’). As with all mark schemes, the content is indicative only, i.e. the lists of points featured are not exhaustive. It is highly likely that there are other perspectives and, provided these are valid and supported fully, marks would be awarded for these in a live exam. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

SECTION A

1 long form question worth 50 marks based on a pre-seen case study. This question should test knowledge, analysis, application insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level.

Total available for Section A: 50 marks

QUESTION 1: CASE STUDY

Windsor Crest Properties Ltd (WCP) is a UK-based commercial real estate company with a portfolio valued at over GBP150m. Its assets include prime office space across London, Manchester and Birmingham. Despite healthy occupancy rates, of just under 85% (expected to increase to 95% in two years), WCP has entered administration as it is unable to meet its debt service obligations.

WCP owes more than GBP62.5m, primarily to four major banks and several mezzanine lenders. This debt structure comprises fixed-interest loans, floating-rate notes and short-term working capital facilities. The bank facilities have helped to keep WCP's cost of capital below the shareholders' target hurdle rate of 9% per annum.

WCP is wholly-owned by Windsor Crest Investments (WCI), a family-owned company, which is not under administration. WCI owns additional businesses, including WC Rentals (letting and leasing), WC Bridging Finance (short-term property-backed loans) and WC Renewable Energy (focused on solar and green building retrofits).

Treasury intervention and strategic review
WCI has appointed a treasury advisory team to develop and implement a turnaround strategy for WCP. The team's primary objectives are to:

- exit administration within 6-12 months
- restore creditor confidence and negotiate a sustainable debt repayment strategy
- restructure the capital base to reduce financial risk and reliance on short-term debt
- explore strategic asset acquisition to support revenue and portfolio consolidation
- embed ESG, sustainability and financial resilience into WCP's future operational model.

Cash flow position and financial snapshot
Below is a summary of WCP's projected cash flow assuming current occupancy (85%) and forecast growth to 95% over two years.

Income statement extract

GBP'000	2025 (projected)	2024 (actual)
Rental income	11,250	10,500
Operating expenses	(4,000)	(3,900)
Operating profit	**7,250**	**6,600**
Finance costs – secured loans	(4,500)	(4,000)
Finance costs – mezzanine debt	(2,000)	(1,600)
Total interest expense	**(6,500)**	**(5,600)**
Restructuring / legal fees	(1,000)	(750)
Net profit / (loss)	**(250)**	**250**

Balance sheet extract

Item	2025 (projected)	2024 (actual)
Investment properties (net)	145,000	146,500
Cash and equivalents	1,300	2,200
Trade and other receivables	2,750	3,100
Total assets	**149,950**	**151,800**
Shareholder equity	(8,200)	(7,950)
Secured loans	47,500	47,000
Mezzanine finance	15,000	14,000
Other liabilities	89,850	93,750
Trade and other payables	5,800	5,000
Total liabilities	**158,150**	**159,750**

The above cash flow projection highlights an inflection point in 2025 where positive net cash is restored through improving occupancy and modestly falling interest costs due to the proposed refinancing.

Proposed financial restructuring options

To address the liquidity crisis and exit administration, the treasury team has developed two financial structuring solutions.

Option 1: Equity injection + zero-coupon bond

- issue a GBP33m zero-coupon bond maturing in five years
- issued at 75.8% of par value (raising GBP25m immediately)
- WCI will offer a full corporate guarantee for the bond
- no annual coupon payment obligation
- funds used for partial debt settlement (GBP15m), operations (GBP5m), and acquisition (GBP5m).

Option 2: Redeemable preference shares

- GBP25m preference share equity issuance with a 6% cumulative dividend, payable from future distributable reserves
- no dividend servicing for first five years
- structured to be redeemable from year six onwards
- enhances equity position and improves debt-equity ratio.

Birmingham asset acquisition proposal

WCI has identified a GBP5m distressed property near WCP's Birmingham portfolio. Treasury proposes acquiring it via a ring-fenced SPV (Special Purpose Vehicle), with WCI as majority equity, to avoid cross-default with WCP. Legal counsel cautions the SPV could trigger tax consolidation under UK anti-fragmentation rules, depending on how control and beneficial ownership are defined.

Acquisition appraisal

Item	Value / assumption (GBP'000)	Notes
Purchase price	5,000	Discounted acquisition from offshore distressed seller
Current market valuation	7,000	Independent open-market valuation
Replacement cost estimate	15,000	Based on comparable new-build benchmarks
Gross annual rent (current)	300	Contracted rental income from single tenant
Potential full occupancy rent	650	Based on market rates and rentable area
Operating expenses (stabilised)	120	Insurance, maintenance, local rates
Retrofit investment (capex)	500	Green upgrades incl. insulation, solar, lighting
Exit valuation (stabilised NAV)	9,500	Estimated based on capitalisation of Net Operating Income (NOI) at market cap rates
Existing occupancy	65%	Blue-chip tenant occupies one floor: others vacant
Proposed holding period	7 years	Forecast horizon for performance analysis
Discount rate	9%	Based on capital structure and risk profile
Proposed SPV ownership	WCI 85%, Third-party investors 15%	Structure ring-fenced from WCP's balance sheet
Financing method	100% equity-financed by WCI and partners	No debt funding planned to avoid cross-default risk
Tax implications	Under review	Potential exposure to UK consolidation and control rules
ESG linkage potential	High	Qualifies for Green Building Certification and ESG investor marketing

Expected net cash flow (GBP'000)

Year	1	2	3	4	5	6	7
Amount	180	350	520	525	530	540	550

Governance, control and strategic alignment
During administration, acquisitions must meet heightened transparency: directors must prioritise creditor interests, ring-fence WCI funding from insolvent estates and evidence accretion with independent valuations and sensitivities.

Treasury controls: segregated investment committee; monthly cash flow and covenant dashboards; ESG audits on new assets (via WCP Renewable Energy).

ESG integration and long-term sustainability
ESG is core to WCP's future. Treasury is pursuing:
(1) a green retrofit fund,
(2) tenant green-lease engagement and reporting alignment, and
(3) SLL/green bond issuance via the WCI debt programme.

WC Renewable Energy will be contractor and co-investor, creating a vertically integrated ESG revenue stream.

London retrofits are planned; tenant feedback warns some upgrades could lift rents. The draft investor brief highlights environmental gains but omits potential tenant churn/commercial friction.

Broader strategic options

- Real Estate Investment Trust (REIT) conversion post-recovery to unlock dividend tax relief and broaden the investor base.
- Pan-WCI multi-tranche debt platform (property, renewables, bridging).
- Partner with a listed issuer for market visibility and lower funding costs.

Scenarios

- A: 95% occupancy, stable rates; cash flow positive FY2026; exit administration with partial creditor recovery.
- B: Flat occupancy, rising rates; disposals needed without refinancing.
- C: ESG strategy succeeds; access sustainability-linked capital; portfolio valuations up 15 -20%.

QUESTION 1

a.	Compare and contrast the zero-coupon bond and redeemable preference share options available to WCP. In your answer you must also consider the impact of both options on WCP's cash flow, balance sheet and investor confidence.	10 marks
b.	Evaluate WCP's financial performance using ratio analysis. In your answer you must also consider how capital structure and cost of capital might influence WCP's recovery prospects and long-term financial stability.	10 marks
c.	Assess the role of governance and stakeholder alignment in WCP's proposed SPV acquisition and turnaround strategy. In your answer you must also consider creditor interests, fiduciary duties and treasury oversight.	10 marks
d.	Analyse the viability of the Birmingham asset acquisition using IRR and **ONE** additional relevant investment appraisal techniques. In your answer you must also consider funding methods, strategic fit and projected returns.	10 marks
e.	Examine how WCP's ESG strategy, including green retrofits and potential green financing instruments, can support its long-term financial stability and investor appeal. In your answer you must also examine risks and mitigations.	10 marks
		Total: 50 marks

Mark scheme

Q1a

1	Zero-coupon: No annual servicing; Preference: cumulative dividend after 5 yrs	1 mark per point.
2	Bond = debt; Prefs = equity – they affect balance sheet differently	
3	Bond yield = 5.7% (based on issue/maturity); Prefs cost = 6%	
4	No control dilution in either structure	
5	Bond may raise default concerns; Prefs improve investor sentiment	
6	Zero-coupon supports liquidity now; Prefs enhance equity ratio	
7	Bond increases leverage; Prefs lower gearing	
8	Preference shares allow redemption flexibility; bond has fixed maturity	
9	Bond backed by guarantee, easing market concerns	
10	Overall: Prefs support long-term strategy; bond gives short-term relief	
		Total marks: 10

Q1b

1	Interest cover = 1.18 - 1.12x: weak debt servicing capacity (2 marks)	1 mark per question
2	Profit (GBP250k) in 2024 to projected loss in 2025 (-GBP250k)	
4	Shareholder equity negative at -GBP8.2m	
5	Cash falling; payables rising = liquidity pressure Reference Ratios	
6	Rental income up 7% YoY = operational upside	
7	Flat Opex shows operational efficiency	
8	Occupancy improvement key to turnaround	
9	Conclusion: Equity injection needed to improve solvency	**Total marks: 10**

Ratio	2025 (Projected)	2024 (Actual)
Operating Profit Margin (%)	64.44	62.86
Net Profit Margin (%)	-2.22	2.38
Debt-to Equity	-19.29	-20.09
Debt-to-Asset Ratio	1.05	1.05
Interest Coverage Ratio	1.12	1.18

Q1c

1	SPV is ring-fenced, avoids cross-default risk.	1 mark per point
2	Creditor rights must be preserved under insolvency law.	
3	WCI fiduciary duty to act in creditors' interest.	
4	Treasury dashboards monitor performance & compliance.	
5	Independent valuations ensure transparency.	
6	Structure separates WCP and WCI activities.	
7	Lender resistance mitigated via clear alignment.	
8	Tax risk due to UK consolidation rules.	
9	ESG controls boost external confidence.	
10	Governance essential to credibility and recovery.	**Total marks: 10**

Q1d

1. Total investment = GBP5.5m (including capex) 2. NPV = 1,897,326 (2 marks) 3. IRR 14.43% > 9% hurdle (viable) (2 marks) $0=t=\sum n(1+IRR)\ tCFt-Initial\ Investment$ 4. Strategic fit: Birmingham hub & tenant upside 5. Occupancy potential from 65% to 90% 6. ESG upgrades help in building interest from potential impact investors. 7. No debt = lower financial risk 8. Strong returns justify acquisition Candidates may address the absence of debt in the structure and the challenges which that brings.	1 mark per valid point. **Total marks: 10**

Q1e

1	Retrofit plan: insulation, solar, lighting	1 mark per valid point.
2	Enables green bond or Sustainability Linked Loan access	
3	Lower cost of capital through ESG linkage	
4	Attracts ESG-focused investors	
5	Vertical integration via WC Renewable Energy	
6	Environmental impact supports brand/reputation	
7	Risk: potential tenant churn due to rent escalation	
8	Mitigation: green lease and phased upgrades	
9	Reputation enhancement via ESG compliance	
10	Long-term value with proper execution	

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.1; 1.2.2; 1.3.1; 1.4.4; 1.5.1; 1.5.4.

Total marks: 10

Total: 50 marks

SECTION B – 50 MARKS

Answer TWO of the following THREE questions. (2 x 25 marks).

Questions test knowledge, analysis, application, insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level. Candidates are expected to be able to synthesise knowledge from different elements of the syllabus rather than be tested on discrete areas.

Total available for Section B: 50 marks

QUESTION 1: CASE STUDY

Van Laaren & Bloemhuis Co. (VLB) is a leading Dutch agricultural input provider, originally structured as a farmer-owned cooperative. Headquartered in Lochem, the business operates in the Netherlands, Belgium, Germany, and the UK. VLB produces and distributes animal feed, crop protection products, fertilisers, and offers technical advisory services to livestock and crop farmers. It has grown to over EUR2.2bn in annual turnover and is recognised as one of Europe's top three feed suppliers by volume.

Ownership and corporate structure

VLB is currently owned by its cooperative members through depositary receipts. These receipts are administered by a foundation that governs voting rights and ensures alignment with the original farmer stakeholders.

VLB is now considering converting into a public limited company (NV) and listing on Euronext Amsterdam within the next 12 months. The intent is to raise long-term growth capital, reduce reliance on bank funding, and institutionalise the business for international expansion.

Strategic objectives

VLB's board has approved a strategic roadmap, 'Future 2025', which includes:

- acquiring smaller feed players in Germany and the UK
- launching proprietary data-driven farm management tools
- investing in ESG-compliant product lines, e.g. non-GMO feed (feed which has not been genetically modified)
- improving margins through logistics optimisation and scale.

Current capital structure (unaudited, FY-End 2024)

Item	EUR'000
Equity (members via DRs)	368,242
Long-term bank debt	210,000
Short-term facilities	45,000
Cash and equivalents	75,194
Total assets	698,570

Financial snapshot (EUR'000)

Metric	2024
Revenue	2,244,470
EBITDA	94,100
Operating profit	64,050
Net profit	51,290
Net operating cash	61,939

Weighted cost of debt is 7.5% per annum.

Challenges ahead of listing

1. **Valuation uncertainty**: no market-based valuation exists. The board is exploring a range of EUR800m–EUR1.1bn enterprise value using DCF and comparable trading multiples.
2. **Capital structure review**: management is considering replacing bank debt with a mix of equity and unsecured notes.

Advisory team appointed

VLB has appointed a syndicate of advisors, including an investment bank, a legal counsel, and a treasury advisor. A draft listing prospectus is in preparation. The chief financial officer (CFO) is also engaging with credit rating agencies in anticipation of issuing a rated corporate bond post-listing.

Peer data

Company	Market cap (EURm)	EV/EBITDA (x)	P/E ratio (x)	EBITDA margin (%)	ESG score*
AgriNutra NV	1,150	11.2×	18.5×	9.8%	72/100
FeedCore AG	850	9.5×	15.0×	8.4%	67/100
EuroFeed Group	640	8.0×	13.2×	7.5%	61/100
VLB (target – pre-listing)	-	-	-	9.2% (est.)	70/100 (est.)

Average price to book ratio = 1.8
*ESG performance against benchmark of prescribed standards.

QUESTION 1

a.	Assess the key considerations for VLB's board when deciding to transition from a cooperative to a publicly listed company.	8 marks
b.	Discuss **THREE** valuation methods that VLB could use to determine an appropriate IPO listing price per share. You are required to undertake the calculations and justify your answers by comparing VLB to its peer companies with reference to the target valuation range.	9 marks
c.	Evaluate the proposed use of IPO proceeds by VLB considering its strategic objectives and financial position. In your answer you must consider VLB's capital structure, operational priorities, and long-term value creation.	8 marks
		Total: 25 marks

Mark Scheme

Q1a

Consideration	Explanation
Ownership and control dilution	Moving to a listed structure means current members/shareholders may lose majority control. Board must weigh this against the benefits of wider capital access.
Capital raising and growth funding	IPO provides access to broader capital markets to fund M&A, expansion, and sustainability goals under Future 2025. The board must assess capital needs.
Governance and reporting obligations	A listed company faces stricter disclosure, ESG reporting, and compliance requirements. This changes board duties and increases scrutiny from investors.
Cultural shift from member-led to profit-driven	Cooperatives focus on member value; listed firms prioritise shareholder returns. The board must manage this shift in priorities and strategic direction.
Valuation and market timing	The board must assess if market conditions support a fair IPO valuation, avoiding undervaluation. Timing the transition is key to preserving value.

1 mark per line

Stakeholder communication and buy-in	Farmers, employees, and suppliers must understand and support the listing to avoid reputational or operational disruption. Clear messaging is vital.
Liquidity and share tradability	Listing offers liquidity to existing members via tradable shares but could also invite short-term investor pressures. Board must balance both.
ESG and reputation risk management	As a listed firm, VLB's ESG strategy and public image will face more scrutiny. Governance must evolve to manage this visibility effectively.

Total marks: 8

Q1b

Valuation Method	Application to VLB	Justification vs Peers
1. Comparable company multiples (EV/EBITDA, P/E)	EBITDA = EUR94.1m → EV range using 8.0×–11.2× = EUR753m–EUR1.055bn.Net profit = EUR51.29m. Peer P/E average = (18.5 + 15.0 + 13.2) / 3 = 15.6×. Implied equity value = 15.6 × EUR51.29m = EUR800.1m	VLB's EBITDA margin (9.2%) > EuroFeed (7.5%), ESG score (70/100) near top end. Justifies mid-to-high multiple.
2. Discounted cash flow (DCF)	Uses EUR51.29m Net profit and EBIT of EUR64m. Forecasted growth from Future 2025.WACC adjusted for 33% gearing.	Reflects long-term strategy and cash generation. Incorporates ESG and M&A upside. Subjective but supports pricing confirmation.
3. Net Asset Value (NAV) /book equity	Book equity = EUR368m.Apply peer P/B = 1.8× = equity value = EUR662m	Provides conservative floor. Excludes brand, scale benefits, and

3 marks per line

		strategic value. Useful as downside reference. Book Equity only accurate if assets are assessed at Fair Value.	**Total marks: 9**

Q1c

Use of funds	Evaluation/Justification
Debt reduction (esp. short-term)	Reduces gearing and refinancing risk. Replacing EUR45m in short-term facilities with equity strengthens balance sheet pre-listing.
Capex for operational expansion	Investment in feed plants, logistics, and digital systems aligns with Future 2025 strategy and supports margin growth.
Sustainability and ESG projects	ESG-aligned spending enhances VLB's rating (currently 70/100), making it more attractive to ESG-focused institutional investors.
M&A opportunities	Bolt-on acquisitions can grow scale and market share, supporting earnings growth and justifying a higher IPO valuation.
Working capital support	Provides liquidity buffer for procurement and farmer-facing activities, especially in volatile agri-cycles.
R&D and digital platforms	Improves traceability, efficiency, and long-term competitiveness — a differentiator in animal nutrition markets.
Dividend or retained earnings policy	Board must decide whether to return capital or retain for reinvestment. This impacts investor appetite and valuation multiples.
Signal to the market	Strategic and disciplined capital allocation demonstrates governance maturity and improves listing confidence.

1 mark per line

Total marks: 8

Syllabus Ref: 1.1.1; 1.2.1; 1.3.2, 1.3.3; 1.5.1; 1.5.2; 1.5.3

Total: 25 marks

QUESTION 2: CASE STUDY

Marula Stone Hotels (MSH) is a South African luxury hospitality group operating 12 boutique lodges and heritage hotels across key tourist regions including the Western Cape, Mpumalanga, and KwaZulu-Natal. MSH has developed a strong brand around eco-tourism and cultural immersion and historically attracted high-end international visitors. However, the COVID-19 pandemic, coupled with rising operational costs and a slowdown in international travel, has placed MSH under financial strain.

As of the most recent year-end, MSH reports total assets of ZAR2.4bn, matched exactly by ZAR2.4bn in debt, leaving no residual equity. MSH's balance sheet is therefore fully leveraged, and all future returns must first be used to service debt obligations. MSH's lenders have placed it under enhanced monitoring due to concerns over cash flow coverage and limited refinancing headroom.

To support the post-pandemic recovery of tourism, a domestic development finance institution (DFI) has proposed a ZAR1.2bn subordinated debt facility. This facility would sit below senior debt in the capital structure, thereby improving MSH's gearing ratios and offering some relief to its interest coverage position. However, the DFI has stipulated that the facility must be fully guaranteed by the shareholders or by an affiliated vehicle. The current shareholders are willing to cede shares in MSH to the guarantor, up to 70%. A suggestion has been made that this vehicle be made of previously disadvantaged groups to enable the hotel group to compete for government contracts reserved for historically disadvantaged entrepreneurs.

The proposed facility aims to strengthen MSH's capital structure and restore balance sheet resilience. From a corporate governance perspective, the introduction of a public-sector funder would also require changes to oversight arrangements. The DFI is expected to appoint a board observer and may impose conditions on future capital allocation, dividend policy and ESG compliance. MSH's management will need to carefully manage these new relationships while balancing existing stakeholder expectations, including those of banks, suppliers, and employees.

MSH's treasurer is now tasked with evaluating the proposed structure and its impact on liquidity, risk and future access to capital markets. In parallel, there is increasing pressure to improve transparency and financial reporting. MSH has not sought a credit rating to date, but the restructuring could provide an opportunity to obtain a preliminary credit opinion, which would improve market perception and inform future funding decisions.

As the business pivots from survival to recovery, the challenge lies in maintaining operational excellence while restructuring its capital base. The decisions taken in the next six months will determine whether MSH can return to profitability, secure long-term investor confidence, and continue contributing to South Africa's tourism economy.

QUESTION 2

a.	Analyse the impact of introducing ZAR1.2bn in subordinated debt on MSH's capital structure and financial risk profile.	9 marks
b.	Discuss the role of treasury in supporting MSH's transition from financial distress to long-term recovery, considering the proposed restructuring.	6 marks
c.	Examine **FIVE** factors a rating agency is likely to consider within its assessment of MSH after the proposed restructuring. You are required to justify the factors in terms of their relevance to MSH.	10 marks
		Total: 25 marks

Mark Scheme

Q2a

Key Point	Explanation	Implication for MSH
Fully leveraged position	Assets of ZAR2.4bn are entirely matched by debt, leaving no equity buffer.	High financial risk and no absorption capacity for losses.
Subordinated debt structure	The DFI's ZAR1.2bn facility ranks below senior debt but is still debt, not equity.	Does not improve gearing; may improve liquidity or interest deferral.
Guarantee requirement	The ZAR1.2bn must be guaranteed by shareholders or affiliates.	Shifts risk to guarantors; creates a contingent liability with credit implications.
Credit rating implications	No equity and high debt suggest sub-investment grade profile.	Guarantee-backed debt may be viewed unfavourably unless subordinated terms are robust.
Governance and control	The DFI may seek oversight rights or covenants.	Increases stakeholder complexity; requires active treasury and board alignment.
Potential public sector sales growth	New ownership may unlock procurement opportunities in tourism.	Could drive higher occupancy, diversify income, and improve resilience.

Total marks: 9

Q2b

Point	Explanation
Liquidity management	Treasury must ensure sufficient working capital and debt service coverage.
Funding strategy	Assess terms of the subordinated facility and balance future funding needs.
Guarantee structuring	Design appropriate risk-sharing or backstop agreements around the guarantee.
Credit rating preparation	Obtain a preliminary rating or shadow rating to improve market confidence.
Risk management	Identify and manage contingent liabilities and covenant risks.
Stakeholder engagement	Build relationships with banks, DFI, and the proposed empowerment vehicle.
Cash flow forecasting	Develop robust forward-looking models under various restructuring scenarios.
Governance support	Support the board with timely and accurate financial insights.
Alignment with strategic priorities	Ensure treasury decisions align with ESG, transformation, and growth objectives.

1 mark per line.

Total marks: 6

Q2c

Factor	Explanation
1. Capital structure and leverage	Agencies will examine MSH's overall leverage. Despite the subordinated nature of the new facility, total liabilities remain high relative to assets, with no equity cushion.
2. Nature and enforceability of the guarantee	The guarantee's credit strength depends on the guarantor's financial position. If the guarantor is thinly capitalised or newly formed, the guarantee may carry limited credit benefit.
3. Subordination terms and structural features	Agencies will evaluate whether the subordinated debt has equity-like features (e.g., payment deferral, long tenor), which may improve the quality of capital.
4. Governance and DFI involvement	Introduction of a DFI with board oversight and ESG conditions could improve perceptions of risk management, financial discipline, and reporting standards.

2 marks per line

5. Liquidity and cash flow forecasting	Future ability to service both senior and subordinated debt will be reviewed through scenario analysis of cash flows and debt service coverage, especially under slower recovery conditions.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.1; 1.2.4; 1.4.2; 1.4.4

Total marks: 10

Total: 25 marks

QUESTION 3: CASE STUDY

Straits Core Assets (SCA) is a Singapore-based asset finance provider focused on leasing industrial and renewable energy assets across Southeast Asia. As of FY2024, it reported EBITDA of SGD460mn and net debt of SGD1.7bn on assets of SGD3.4bn. SCA's income is generated primarily through lease receivables, structured financing and asset recovery.

In early 2025, SCA received an unsolicited acquisition proposal from Apex Vector Partners (AVP), a global private equity firm, proposing to acquire 100% of SCA and delist it from the Singapore Exchange. AVP cited SCA's stable lease-backed income and undervalued share price (trading at P/E ratios of 9.5x earnings versus peer average of 11.2x) as key drivers.

The SCA board appointed its treasury and corporate finance teams to evaluate the proposal. Key considerations included cost of capital, impact on shareholder value, and strategic flexibility post-delisting.

Metric	Input
Risk-free rate (rf)	3.0%
Equity risk premium	5.8%
Beta (β)	1.2

The current capital structure comprises 60% debt and 40% equity, with a pre-tax cost of debt of 5.2% and corporate tax rate of 17%.

The private equity firm's bid implied an EV/EBITDA of 8.3x, valuing the company at SGD3.82bn, above the market capitalisation but still within a justifiable range based on fundamentals. The board considered the offer credible but sought to assess long-term value against short-term premium.

The treasury team also modelled the implications of delisting: reduced regulatory burden and increased operational agility, but higher refinancing risk without capital market access. AVP proposed a refinancing structure using mezzanine debt and equity injection, which would increase leverage in the short-term.

SCA's current investment policy requires a minimum hurdle rate of 12% on new lease portfolios, based on risk-adjusted returns. Stakeholder management became central to the process. Institutional shareholders pressed for clarity on use of proceeds and long-term value preservation. SCA's staff expressed concerns about restructuring under private ownership. The board mandated a fairness opinion and opened consultations with major shareholders.

QUESTION 3

a.	Evaluate the strategic implications for SCA of delisting from the Singapore Exchange following the proposed private equity acquisition.	10 marks
b.	Calculate the WACC and assess how increased financial leverage post-acquisition might affect future investment appraisal decisions. You are required to show your workings.	8 marks
c.	Examine how stakeholder interests should be prioritised by SCA during the proposed acquisition and delisting process. In your answer you must refer to a recognised stakeholder mapping matrix and the appropriate methods of engagement with different stakeholder groups.	7 marks
		Total: 25 marks

Mark Scheme

Q3a

No.	Point	
1.	**Loss of public capital access:** Delisting removes the ability to raise equity on the public market, limiting flexibility in future funding.	1 mark per point.
2.	**Lower compliance burden:** Private ownership reduces regulatory costs and disclosure requirements, which may improve internal efficiency.	
3.	**Operational agility:** Management may make longer-term strategic decisions without pressure for short-term earnings performance.	
4.	**Potential increase in leverage:** AVP's use of mezzanine debt may raise financial risk, increasing cost of capital and reducing debt headroom.	
5.	**Shareholder liquidity impact:** Public shareholders lose the ability to trade shares, which may lower perceived value or trigger opposition.	
6.	**Impact on governance:** Private equity may impose stricter performance KPIs but reduce transparency and broader stakeholder oversight.	
7.	**Risk to stakeholder relationships:** Employees and customers may react negatively to a change in ownership style, particularly if cost-cutting is expected.	
8.	**Valuation premium is attractive:** The 8.3x EV/EBITDA offer represents a clear premium over current public valuation, supporting short-term shareholder returns.	
9.	**Hurdle rate pressure:** A higher WACC post-buyout may limit project approvals under SCA's 12% investment hurdle rate.	
10.	**Long-term value trade-off:** The board must balance realising value now against the opportunity to grow further under public ownership.	**Total marks: 10**

Q3b

No.	Point
1.	**Calculate cost of equity (Ke):** 3% + (1.2 × 5.8%) = 9.96%
2.	**Calculate after-tax cost of debt:** 5.2% × (1 – 0.17) = 4.32%
3.	**Apply weightings (60% debt, 40% equity):** WACC = (0.4 × 9.96%) + (0.6 × 4.32%)
4.	**Final WACC value:** = 6.6%
5.	This is the benchmark return required for investments to maintain shareholder value.
6.	**Leverage effect:** Post-buyout debt increase will raise financial risk, increasing beta and cost of equity.
7.	**WACC impact:** Higher cost of equity may outweigh benefits of debt tax shield, potentially increasing WACC.
8.	**Appraisal constraint:** Fewer projects will meet the 12% hurdle rate, potentially limiting growth opportunities.

1 mark per line.

Total marks: 8

Q3c

- Institutional shareholders fall into the high power, high interest category. Their approval is essential for the transaction to proceed, so SCA must engage them directly with financial analysis, fairness opinions, and structured consultation.

- Debt providers such as banks or bondholders may have high power but lower interest in the delisting itself. However, they influence future refinancing terms and covenant structures, so SCA should keep them satisfied through early communication and risk impact disclosures.

1 mark per point

- Employees and customers represent low power but high interest stakeholders. They are directly affected by potential restructuring or service changes. SCA should keep these groups informed through regular internal updates and continuity assurances to preserve trust.

- Retail investors or minority shareholders typically fall into the low power, low interest category. Their influence is limited in a buyout, but SCA must meet all disclosure obligations to ensure compliance and fairness.

- The stakeholder power-interest matrix allows the company to map and prioritise each group based on their level of influence and concern. This helps the board manage competing expectations effectively.

- The matrix also helps avoid resource misallocation by identifying which stakeholders require active engagement versus those who need only monitoring or periodic updates.

- By applying this framework, SCA's board can ensure that its decision-making process balances the interests of financial and operational stakeholders while supporting the company's strategic objectives during the acquisition.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.3; 1.2.3; 1.3.2; 1.5.3; 1.5.4

Total marks: 7

Total: 25 marks

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