CORPORATE & INTERNATIONAL TRADE FINANCE

DEFERRAL/REFERRAL COURSEWORK

UK Oil Plc

**Solar Power Generating Plant**

In view of the volatile oil price and depleted North Sea Oil Reserves, the Board would like you to evaluate the following alternative investment – the Purchase and Operation of a **Solar Power Generating Plant.**

The £200 million capital investment will be raised by either Equity or a mixture of Equity and Debt, though banks will only agree to provide up to £100 million. The Cost of Equity is estimated to be 20% and the Debt is currently either 7% for Floating Rate Debt or 8% for Fixed Rate.

The expected life of this project is 20 years.

*A proposed Schedule of Activities, Expected Duration & Financial Implications is detailed below…*

**Schedule of Activities, Expected Duration & Financial Implications**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Activity** | **Immediate Predecessors** | **Duration (months)** | | | **Financial Implication** |
| **O** | **M** | **P** |
| A: Market Research | Completed | 12 | | | £2M |
| B: Financial Evaluation | A | 1 week | | |  |
| C: Board Consideration | B | 1 | 2 | 3 |  |
| D: Negotiation/Securing Licensing | C | 3 | 6 | 9 | £1M  (Legal Fees) |
| E: Locate Site | C | 1 | 3 | 5 | £100,000 |
| F: Acquire Site; Property, Plant & Equipment | D & E | 3 | 4 | 6 | £200M |
| G: Hire & Training of Labour | F | 1 | 2 | 3 | £2M  (Annual Cost) |
| H: Site Preparation | F | 3 | 4 | 5 | £5M |
| I: Purchase & Delivery of Panels | F | 1 | 4 | 6 | **See Quotes Below** |
| J: Plant Production | G & H & I | On-going | | | £80M  (Annual Cost) |
| K: Sales & On-going Production | j | On-going | | | **Detailed below** |

***O = Optimistic; M = Most Likely; P = Pessimistic* Activity I: Purchase & Delivery of Panels**

Three quotations have been received from potential suppliers, all of whom will provide an appropriate Performance Bond:

**Supplier Price Payment Terms**

[](http://www.google.co.uk/url?sa=i&rct=j&q=usa+flag&source=images&cd=&cad=rja&uact=8&ved=&url=https://www.isic.org.tr/icerik/usa/&ei=JTNnVaiDMMO0sATHhoDQBQ&bvm=bv.93990622,d.ZGU&psig=AFQjCNGNedB86Um3xEoUFnwfrCw7qPWHpQ&ust=1432913062362729)USA US$ 50M Ex Works

Payment in Advance

Sweden SEK 455 CIF UK

[](http://www.google.co.uk/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=0ahUKEwjixpnCvKDQAhWERhQKHYfHBS4QjRwIBw&url=http://www.drodd.com/html7/sweden-flag.html&psig=AFQjCNHukYMQWou_P7XgpKUGWz_9A1Cqdw&ust=1478945777721974) D/A – sight Bill of Exchange

Collection charges of 0.25% are payable by the buyer.

France € 46M DDP

[](https://www.google.co.uk/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=0ahUKEwjZ5_HbvKDQAhXE7BQKHWaAAEcQjRwIBw&url=https://wall.alphacoders.com/by_sub_category.php?id=210400&bvm=bv.138493631,bs.2,d.ZGg&psig=AFQjCNEc-D07DkTJorBICZ1G6hwqcTTFbA&ust=1478945832612361)Letter of Credit – payment 6 months after delivery.

Documentary credit charges of 0.75% are payable

by the buyer.

*Add £1M for Freight & £1M for Insurance where appropriate*

**Activity K: Sales & On-going Production**

Sales are forecast to be:

2021 0

2022 0

2023 £ 50M

2024 £ 80M

2025 £100M

2026 onwards £130M

**Required:**

Your Financial Evaluation, of this investment, outlining/justifying:

* Your recommended Method of Finance
* Calculation of the Weighted Average Cost of Capital
* The Critical Path using appropriate Activity Durations
* Your recommended supplier
* Calculation and Evaluation of the Payback, NPV & IRR incorporating appropriate Corporation Tax and Written Down Allowances
* Whether to invest or not in the project

Submission Date: By Midnight 2nd July 2021

*(This is the University Deadline, hence NO extensions can be granted beyond this date. It is the latest date possible)*

Coursework Marking Scheme

There is NOT one correct answer. There are MANY. Just as there are many incorrect answers. Your decisions will be based on your evaluation of the economy, the market and the financial aspects as well as your assessment of Risk.

As a result marks will be awarded for:

* Evaluation
* Accuracy of Evaluation
* Evidence based Justification of your Recommendation
* Risk Assessment
* Professional Presentation

|  |  |
| --- | --- |
| OVERALL |  |
| * Your recommended Method of Finance & justification | 20% |
| * Calculation of the Weighted Average Cost of Capital | 10% |
| * The Critical Path using appropriate Activity Durations | 10% |
| * Your recommended supplier supported with calculations and evaluation of the advantages & disadvantages of the various quotes | 10% |
| * Calculation and Evaluation of the Payback, NPV & IRR incorporating appropriate Corporation Tax and Written Down Allowances | 40% |
| * Evidence based recommendation whether to invest or not in the project with reference to finance and strategic issues | 10% |
| TOTAL | 100% |

***Word Count:***

*With only 3,000 words your report should be concise and to the point. Much of your evaluation may not appear in the final report, though it will be evident from what you write that you have engaged in detailed evaluation and analysis.*