

Case Studies in International Finance - Fall 2012

University of Houston MBA Program – FINA 7360
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This course aims to equip future executives with the concepts and tools necessary to relate international finance to business strategy within a globalizing economy. The focus of the course will be on the practical. Course material will be presented in such a way as to prepare students to manage other finance professionals and to equip them to formulate recommendations to decision makers. Students focusing on general management will also benefit from an understanding of the financial aspects of operating overseas.

To achieve these objectives, the course will employ 17 case studies. These cases will usually be analyzed from the perspective of a senior financial executive; applications of financial perspectives to strategy, investment decisions and risk management will be emphasized. The course case studies will also emphasize the energy and petrochemical industries.

The world of multinational business provides the context for the course material. The course will demonstrate the special opportunities enjoyed by multinational companies due to their ability to operate in multiple countries and across international boundaries. International business, however, also involves risks not faced by firms that stay at home. This course will pay particular attention to three of those risks: (1) currency/inconvertibility; (2) volatile emerging market economies; and (3) political risk. The objective is to equip students to appreciate the special opportunities offered by the international economy and to weigh these opportunities in light of its special risks.

The course will be taught in three modules:

Module 1: International Financial System, Exchange Risk and Hedging, with special attention to the problems of the Euro

Module 2: The Global Cost of Capital, International Investment Decisions and Risk Management

Module 3: Intl. Taxation, Centralized vs. Project Financing options for Multinational Companies

Classes will be taught as a mixture of lecture and case study discussion. Each student will be part of a team, presenting at least one case study to the class. Students will also be expected to read all cases and comment actively on their colleagues' presentations. Lecture material relevant to cases will be presented one week in advance. Teams will then present their case analyses during the next class.

Cases will come in several varieties. There are relatively short cases found in the assigned textbook. These cases will be discussed by the professor in class. A second set of cases, developed by the instructor, require more in-depth analysis of the material; these cases are also exercises in practical business problem solving. Student teams will handle these cases using a methodology outlined by the instructor to recommend action plans. Finally, there are the Capstone cases which are discussed further below.

Case presentations should be no more than 8 PowerPoint slides, not including table of contents. **Teams should minimize inclusion of background material, as the whole class will have already read the case.**

The instructor will critique each team's case presentation. He will also conclude the case portion of the class by discussing other issues and teaching points of note.

Each module will culminate with a Capstone case involving Kemica, a petrochemical company located in Australia. This company faced the full gamut of international financial and investment challenges between its formation in 1999 and its sale to a Chinese chemical firm in 2005. Overall, 5 Kemica case studies will be discussed during the course. These cases will challenge students to put the specific lessons from previous cases to work within a complex and at times desperate context. **Students should read the Kemica A case before the first class as an introduction to these Capstone cases.**

Reading assignments have been kept to between 15-25 pages of text per week. The intent here is to leave time for all students to read the assigned cases. Textbook readings have been carefully selected for their relevance to key concepts. The instructor will provide additional guidance weekly on which portions of the assigned reading are most important.

The assigned text is ***Multinational Business Finance, (MBF)*** David K. Eiteman, Arthur I. Stonehill & Michael H. Moffett, 12th edition; Pearson/Addison-Wesley Publishing Company. The text book is available on Amazon.

A course pack of energy-related cases can be purchased at the Bauer Energy Case Study website, www.bauerenergycases.com. Additional case material will be provided by the Professor on Blackboard.

Grading in the course will be based 25% on the case presentations, 25% on the midterm exam and 40% on the final exam and 10% for class participation.

Questions or messages may be sent to me via e-mail at svarbogast@comcast.net and svarbogast@uh.edu. In time critical situations, the home e-mail address is probably a better bet. Alternatively, I can be reached at 713 898-2636. I will also be available in my office, Bauer 220D at 4:30pm on Tuesdays and Thursdays.

The course topics, readings and case studies are outlined below. The first case, Kemica (A) will be posted on Blackboard before the beginning of classes. Read the case as background to the first class (no work required). Kemica (A) will provide an introduction to several issues addressed during the course and to the Kemica Capstone cases. You should also read the section in ***Multinational Business Finance*** covering the International Monetary System (pp. 50-70)

Good luck and enjoy the course!

Course Assignments

MODULE 1 – International Economics, Exchange Risk and Hedging

Date	Topic	Case Study Presentation	Readings
<p>Class I August 30</p>	<p><u>The International Financial Environment</u></p> <ul style="list-style-type: none"> • Introduction to International Finance • Globalization Pro/Con • International Monetary System & Different Exchange Rate Systems • Balance of Payments Accounting and Interpretation; intro to Hung. Venture • Discussion: Case Kemica (A) 	<p style="text-align: center;"><u>NO CLASS ON SEPTEMBER 6!</u></p>	<p style="text-align: center;"><u>Read:</u> Multinat. Bus. Fin., pp. 50-70</p> <p>Case: Kemica (A) <i>On Case Study website</i></p>
<p>Class II September 13</p>	<p><u>Trade, FX Market & Rates</u></p> <ul style="list-style-type: none"> • Trade Theory: Intl. Commodity Markets • Foreign Exchange Market and Rates • Currency Arbitrage & Speculation • Inflation Theory • Discussion: Finish Maarka case • Introduction to Spanish Sovereign Debt 	<p style="text-align: center;"><u>Case Study 1 Presentation</u></p> <p style="text-align: center;">Hungarian Venture</p>	<p style="text-align: center;"><u>Read:</u> Multinat. Bus. Fin., 78-98, 153-156, 176-179 and</p> <p>Case: Finish Maarka & Hungarian Venture - provided by Professor</p>
<p>Class III September 20</p>	<p><u>Transaction/Translation FX Exposure. Spot and Forward FX Rates: How to forecast them? Hedging Options</u></p> <ul style="list-style-type: none"> • Measuring FX Exposure; Translation vs. Transaction Exposure • Forecasting Exchange Rates, PPP Implications: Floating vs. Fixed Rates • Financial Hedging Options • Intro: Toyota, Lufthansa cases 	<p style="text-align: center;"><u>Case Study 2 Presentation</u></p> <p style="text-align: center;">Buy Spanish Sovereign Debt?</p>	<p style="text-align: center;"><u>Read:</u> Multinat. Bus. Fin., pp., pp., 164-176, 181-182, 282-283, 198-203, 287-289</p> <p>Case: Buy Spanish Sovereign Debt? – provided by Professor</p>
<p>Class IV September 27</p>	<p><u>Economic/Operating Exposure, Operational Hedges & Hedging Theory</u></p> <p>Operating FX exposure; Exchange Risk in Business and Investment Strategy When/Whether to Hedge</p> <ul style="list-style-type: none"> • Discussion: Toyota’s Operating Exposure • Introduction to Capstone Case I Kemica FX Policy 	<p style="text-align: center;"><u>Case Study 3 & 4 Presentations</u></p> <p style="text-align: center;">Lufthansa</p>	<p style="text-align: center;"><u>Read:</u> Mltinat. Bus. Fin., pp. 320-322, 326-335 and</p> <p>Cases: Toyota’s Op. Exposure: MBF 338-40 Lufthansa: provided by Professor</p>
<p>Class V October 4</p>	<p><u>Introduction to Foreign Investment Theory, Parent vs. Affiliate Economics</u></p> <ul style="list-style-type: none"> • Foreign Investment Decision-Intro. • Domestic, Global and Project Cost of Capital; Affiliate vs. Parent economics • Introduction to PetroMandarin case 	<p style="text-align: center;"><u>Case Study 4 Presentation</u></p> <p style="text-align: center;">Capstone Case: Kemica FX Policy</p>	<p style="text-align: center;"><u>Read:</u> Multinat. Bus. Fin., pp. 452-458, 487-490 and</p> <p>Case: Kemica FX Policy- <i>On Case Study website</i></p>

MODULE #2 – Foreign Investment, Risk & JV'S

Date	Topic	Case Study Presentation	Readings
<u>Class VI</u> October 11	<u>International Project Economics</u> <ul style="list-style-type: none"> • Foreign Invest. cont. – Affiliate vs. Parent Economics • Project bases, Commodity markets & prices; setting the “alternate case” • Introduction to Expro Argentina, SEP Refinery cases 	<u>Case Study 5 Presentation</u> PetroMandarin weighs its Global Cost of Capital	<u>Read:</u> Multinat. Bus. Fin., pp. 487-490
<u>Class VII</u> October 18	<u>Integrating International Risk into Project Economics; International JVs – Strategy & Economics</u> <ul style="list-style-type: none"> • Measuring Project Political Risk • Risk adjustment, rates of return • JV Strategy, Formation, Project economics • Introduction to Soro Dondar (A), Kemica Breakup Clause cases • Midterm Exam Preview 	<u>Case Study 6 Presentation</u> SEP Refinery Expro Argentina	<u>Read:</u> Multinat. Bus. Fin., pp. 458-462, 464-476 Cases: Expro Argentina SEP Refinery <i>On Case Study website</i>
<u>Class VIII</u> October 25	MIDTERM EXAM		
<u>Class IX</u> November 1	<u>Summary/Conclusion of International Investment Economics</u> <ul style="list-style-type: none"> • Midterm Review • Int. M&A • Review of International Project Rationales, Risks, & Economics • Introduction to Kemica Breakup Clause Ethane Conversion Project – Capstone Case 	<u>Case Study 7 Presentation</u> Soro Dondar (A) Kemica Breakup Clause	<u>Read:</u> Cases: Soro Dondar (A) Kemica Breakup Clause <i>On Case Study website</i>
<u>Class X</u> November 8	<u>Introduction to International Funding and Taxation</u> <ul style="list-style-type: none"> • Issues in Funding International Operations • Firm Organization w/ Foreign Operations • Introduction to International Taxation • Introduction to Tax Planning Opportunities case 	<u>Case Study 8 Presentation</u> Capstone Case Presentation: Kemica Ethane Conversion Project	<u>Read:</u> Multinat. Bus. Fin., pp. 514-524 Case: Kemica Ethane Conversion Project <i>On Case Study website</i>

MODULE #3 – Funding International Operations: Centralized & Project Finance

Date	Topic	Case Study Presentation	Readings
<p><u>Class XI</u> November 15</p>	<p><u>Financing Options and Economics for Foreign Operations</u></p> <ul style="list-style-type: none"> • MNE and Centralized Finance System • Organizing a CFS • Introduction to Project Finance • Introduction to Soro Dondar B 	<p><u>Case Study 8 Presentation</u></p> <p>Tax Planning Opportunities from the Merger with Missol Corp.</p>	<p><u>Read:</u> Multinat. Bus. Fin., pp. . 410-414, 418-419,</p> <p>Case: Tax Planning Opportunities... <i>On Case Study website</i></p>
<p><u>Class XII</u> November 29</p>	<p><u>Financing Options and Economics for Foreign Operations</u></p> <ul style="list-style-type: none"> • Project Financing and Risk Mitigation; • Use of ECA's & MLA Financing • Costs/Benefits of Project Financing; • Centralized vs. Project Finance Decision • Introduction to Capstone Case 3: Leveraging Kemica 	<p><u>Case Study 9 Presentation</u></p> <p>Soro Dondar (B)</p>	<p><u>Read:</u> Multinat. Bus. Fin., 503-505</p> <p>Case: Soro Dondar B <i>On Case Study website</i></p>
<p><u>Class XIII</u> December 5</p>	<p><u>Operating under High Inflation, Devaluation and Remittance Constraints</u></p> <ul style="list-style-type: none"> • Causes and Impacts of High Inflation; Indexation; Financing under High Inflation • High inflation, devaluation & remittance • Discussion: Esso Brasileira case • Final Exam Preview 	<p><u>Case Study 10 Presentation</u></p> <p>Leveraging Kemica</p>	<p><u>Read:</u> Cases: Esso Brasileira</p> <p>Leveraging Kemica <i>On Case Study website</i></p>

Final Words:

Course Evaluations

The C.T. Bauer College of Business requires all its instructors to be evaluated by their students. The results of these evaluations are important to provide feedback to instructors on how their performance can be improved. We encourage students to provide feedback to instructors through the evaluation process.

Academic Honesty

The University of Houston Academic Honesty Policy is strictly enforced by the C.T. Bauer College of Business. No violations of this policy will be tolerated in this course. A discussion of the policy is included in the University of Houston Student Handbook which can be found at <http://www.uh.edu/dos/hdbk/acad/achonpol.html>. Students are expected to be familiar with this policy.

Accommodations for Students with Disabilities:

The C. T. Bauer College of Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.