

FALL 2024

## FINANCIAL ECONOMICS (ECO605)

### ASSIGNMENT

MARKS: 10

DUE DATE: 9<sup>TH</sup> JANUARY, 2025

#### Case I:

**Habib Green Energy Ltd.**, a renewable energy company based in Karachi, is a leading player in the solar and wind energy sector. With Pakistan experiencing an ongoing energy crisis and a rising demand for sustainable solutions, the government has introduced various incentives for renewable energy projects. To tap into this growing opportunity, Habib Green Energy is planning to launch a large-scale solar park project in Sindh. The project requires substantial investment, and to assess the feasibility of raising funds through equity financing, the company's finance team needs to calculate its cost of equity capital. The company has provided the following key information:

#### **Given:**

- The beta ( $\beta$ ) of the company's stock is **1.4**, indicating a higher risk due to the nature of the renewable energy sector.
- The current **risk-free rate** in Pakistan, based on 10-year Pakistan Investment Bonds, is **12% per year**.
- The **market premium** (the expected return on the KSE-100 index minus the risk-free rate) is **5.5% per year**.

#### **Requirements:**

1. Calculate the **cost of equity capital** using the **Capital Asset Pricing Model (CAPM)**.
2. Explain what the **implied cost of carry** means in the context of Habib Green Energy Ltd.
3. Discuss what the calculated **cost of equity capital** implies for the company's ability to attract investors and raise funds for the solar park project.

## **IMPORTANT:**

24 hours extra / grace period after the due date are usually available to overcome uploading difficulties. This extra time should only be used to meet the emergencies and above-mentioned due dates should always be treated as final to avoid any inconvenience.

## **OTHER IMPORTANT INSTRUCTIONS:**

### **DEADLINE:**

- Make sure to upload the solution file before the due date on VULMS.
- Any submission made via email after the due date will not be accepted.
- **FORMATTING GUIDELINES:**
- Use the font style “Times New Roman” or “Arial” and font size “12”.
- It is advised to compose your document in MS Word format.
- You may also compose your assignment in Open Office format.
- Use black and blue font colors only.

### **RULES FOR MARKING**

- Please note that your assignment will not be graded or graded as Zero (0), if:
- It is submitted after the due date.
- The file you uploaded does not open or is corrupt.
- It is in any format other than MS Word or Open Office; e.g., Excel, PowerPoint, PDF etc.
- It is cheated or copied from other students, internet, books, journals etc.

**Note related to load shedding: Please be proactive**

### **Dear students!**

As you know that semester activities have started and load shedding problem is also prevailing in our country. Keeping in view the fact, you all are advised to post your activities as early as possible without waiting for the due date. For your convenience; activity schedule has already been uploaded on VULMS for the current semester, therefore no excuse will be entertained after due date of assignments, quizzes or GDBs.

**BEST OF LUCK**