<u>BPF2213 (Final Examination, June 2016) QUESTION 3(b)</u>

Istisna' Corp. plans to issue a 10% bond which has term of 12 years to maturity. Istisna' estimates that the bonds will sell for RM1,090 and that flotation costs will equal RM15 per bond. Istisna' Corp.'s common stock currently sells for RM20 per share. Istisna' can sell additional shares by incurring flotation costs of RM3 per share. The company just paid a dividend yesterday of RM4 per share and expects the dividend to grow at a constant rate of 5% per year. The company also expects to have RM20 million of retained earnings available for use in capital budgeting projects during the coming year. The capital structure would be 40% debt and 60% common equity and the marginal tax rate is 35%. Calculate:

i) the after-tax cost of debt

(CO1, PO1/ 6 Marks)