ACT349 F14 Assignment for Sep 17, 2014 4:00pm Tutorial

Brealey Myers Allen 11th Ed 'Principles of Corporate Finance' (North American or Global edition)
These questions are from the text and given here for your convenience. But it will be easier to answer them if you have the text and you'll need the text for the next assignment – please get it fast-certainly in time to do the assignment for the Sep 24 tutorial. Sorry, but copyright law is a constraint.

1. (BMAGL11-098 ;BMA11-Ch04-Q04v00) Company Y does not plough back any earnings and is expected to produce a level dividend stream of \$5 a share. If the current stock price is \$40, what is the market capitalization rate?
2. (BMAGL11-099 ;BMA11-Ch04-Q05v00) Company Z's earnings and dividends per share are expected to grow indefinitely by 5% a year. If next year's dividend is \$10 and the market capitalization rate is 8%, what is the current stock price?
3. (BMAGL11-099 ;BMA11-Ch04-Q07v00) Company Z's earnings and dividends per share are expected to grow indefinitely by 5% a year. Next year's dividend is \$10 and the market capitalization rate is 8%. If Company Z were instead to distribute all its earnings, it could maintain a level dividend stream of \$15 a share. How much is the market actually paying per share for growth opportunities?
4. (BMAGL11-100 ;BMA11-Ch04-Q18v00) Consider the following three stocks: a) Stock A is expected to provide a dividend of \$10 a share forever. b) Stock B is expected to pay a dividend of \$5 next year. Thereafter, dividend growth is expected to be 4% a year forever. c) Stock C is expected to pay a dividend of \$5 next year. Thereafter, dividend growth is expected to be 20% a year for five years (i.e. until year 6) and zero thereafter. If the market capitalization rate for each stock is 10%, which stock is the most valuable? What if the capitalization rate is 7%?
5. (BMAGL11-100 ;BMA11-Ch04-Q20v00) Company Q's current return on equity (ROE) is 14%. It pays out one-half of earnings as cash dividends (payout ratio=0.5). Current book value per share is \$50. Book value per share will grow as Q reinvests earnings. Assume that the ROE and payout ratio stay constant for the next four years. After that, competition forces the ROE down to 11.5% and the payout ratio increases to 0.8. The cost of capital is 11.5% What are Q's EPS and dividends next year? How will EPS and dividends grow in years 2, 3, 4, 5 and subsequent years?

6. (BMAGL11-101 ;BMA11-Ch04-Q25v00) Permian Partners (PP) produces from aging oil wells in west Texas. Production is 1.8 million barrels per year in 2013, but production is declining at 7% per year for he foreseeable future. Costs of production, transportation and administration add up to $25 per barrel. The average oil price was $65 per barrel in 2013.

PP has 7 million shares outstanding. The cost of capital is 9%. All of PP's net income is distributed as dividends. For simplicity, assume that the company will stay in business forevcr and that costs per barrel are constant at $25. Also, ignore taxes.

a) what is the PV of a PP share? Assume that oil prices are expected to fall to $60 per barrel in 2014, $55 per barrel in 2015 and $50 per barrel in 2016. After 2016, assume a long-term trend of oil-price increases at 5% per year.

b) What is PP's EPS/P ratio and why is it not equal to the 9% cost of capital?