**Stock Market Analysis – Real Estate**



Let us use our home as an analogy to understand the balance sheet, the income statement, and the cash flow statement. Let us model our home as a company **Challenger Inc** with the following statistics:

**Number of Shares:** 100,000

**Price per Share:** $10.00

**Dividends:** $36,000/year

**Cash:** $20,000

**Market Capitalization (net worth):** $10/share x 100,000 shares = $1,000,000

**Revenue (rental):** $60,000/year

**Running Expenses (utilities, taxes, insurance,…):** $12,000/year

**Debt (mortgage):** $500,000

**Interest payments (2% annually):** $500,000 x 2%/year = $10,000/year

**The Balance Sheet**

**Assets:**

Equity: $1,000,000

**Liabilities:**

Debt: $500,000

**Debt/Equity = 50%**

**The Income Statement**

Revenue: $60,000/year

Running Expenses: $12,000/year

Interest on Debt: $10,000/year

**Income:** (revenue – running expenses – interest on debt) =

($60,000 – $12,000 - $10,000)/year = **$38,000/year**

**Earnings Per Share:** Income/number of shares = $38,000/year / 100,000/shares = $**0.38/share**

**Price Per Earnings:** price per share / earnings per share = $10.00/share / $0.38/share **= 26.3**

**Dividend Per Share:** dividends/number of shares = $36,000 / 100,000shares = **$0.36/share**

**Dividend Yield:** 100% x Dividends / Market Cap = $36,000 / $1,000,000 = **3.6%**

100% x Dividend Per Share / Price Per Share = 100% x 0.36/10 = **3.6%**

**Dividend Payout Ratio:** 100% x dividends per share / earnings per share = 100% x 0.36 / 0.38 = **94.7%**

**The Cash Flow Statement**

Cash: $20,000

Income: $38,000/year

Dividend Payout: $36,000/year

**Change in Cash before taxes:** income – dividend payout = +**$2,000/year**

**Income Tax (18% corporate tax rate):** 2000 x 0.18 = **$360**

**Change in Cash**: $2,000 – $360 = **$1640**