6.08 Equity Valuation Concepts And Basic Tools

Question 1
A company declares a one-time 10% stock dividend to shareholders of record on a stock that trades at CHF 20. All else being equal, on the ex-dividend date the *most likely* impact of the dividend on the stock price is that it:
A. remains unchanged.
B. decreases by CHF 2.
C. decreases by CHF 1.82.

Question 2
As a result of the relationship between the Gordon growth model and the justified forward price-to-earnings ratio, all else being equal, an increase in the justified forward P/E *most likely* indicates a(n):
A. change in the dividend payout ratio.
B. increase in the required rate of return.
C. decrease in the long-term growth rate.

Question 3
An analyst has gathered the following information about a company's stock:

Selected Data	
Current dividend	€1
Annual dividend growth rate, Years 1-3	6%
Annual dividend growth rate, Years 4+	3%
Required rate of return	4%

According to the two-stage dividend discount model, the amount of the dividend at the end of the first year of the long-term growth stage is *closest* to:
A. €1.23
B. €1.26
C. €1.30

Question 4
An analyst has estimated the enterprise value of a firm and wants to calculate the market value of its common equity. The analyst would *most appropriately*:
A. add the market value of preferred stock and debt and subtract cash equivalents and short-term investments.
B. subtract the market value of preferred stock and debt and add cash equivalents and short-term investments.
C. subtract the market value of preferred stock and debt and subtract cash equivalents and short-term investments.

Question 5

An analyst gathers the following information about the common stock of a mature company with a stable growth pattern. The company's dividend growth is expected to be constant for an indefinite time period.

Most recent dividend	€0.95
Required rate of return	9%
Dividend payout ratio	53%
Beta	1.10
Return on equity	7%

The intrinsic value of the stock is *closest* to:

A. €16.64

B. €17.18

C. €18.62

Question 6

A company's noncallable, nonconvertible preferred stock pays dividends of $5 per share and has a required rate of return of 8%. If the required rate of return decreases to 7.5%, then the value of the preferred stock would *most likely*:

A. increase by $4.17 per share.

B. decrease by $4.17 per share.

C. change to $4.65 per share.

Question 7

An analyst gathers the following data about two companies:

	Company X	Company Y
Current market price per share	ZAR 101.00	ZAR 62.00
Last year's earnings-per-share	ZAR 2.09	ZAR 1.15
Long-term dividend growth rate	6.0%	7.5%
Dividend payout ratio	50.0%	60.0%
Required rate of return	7.0%	9.0%

Compared with Company X, Company Y *most likely* has a:

A. higher trailing P/E and justified forward P/E.

B. higher trailing P/E and lower justified forward P/E.

C. lower trailing P/E and higher justified forward P/E.

Question 8
An analyst gathers the following data on a company whose dividend growth rate is expected to be constant indefinitely:

Current market price	£61.03
Last dividend paid	£2.74
Required rate of return	8.0%
Weighted average cost of capital	7.6%

Assuming the stock is fairly valued, its long-term growth rate is *closest* to:
A. 2.98%
B. 3.36%
C. 3.51%

Question 9
An investor evaluates a common stock using two valuation models:

- A free-cash-flow-to-equity model estimates the intrinsic value at 158–161.
- An earnings multiple model estimates intrinsic value at 163–167.

If the stock is currently trading at 162, the investor's *most appropriate conclusion is that the stock is:*
A. undervalued.
B. fairly valued.
C. overvalued.

Question 10
An analyst has gathered the following information about a company's stock:

Selected Data	
Long-term constant growth rate	5%
Earnings retention ratio	60%
Required rate of return	9%
Weighted average cost of capital	6%
Next year's projected earnings	SGD 2

According to the Gordon growth model, the company's justified price-to-earnings ratio implies its stock's value is *closest* to:
A. SGD 10
B. SGD 20
C. SGD 30

Question 11
An analyst determines that all companies in a universe of widely followed global large-cap stocks are significantly undervalued. The *most appropriate* next step would be to:
A. buy all these undervalued stocks in client portfolios.
B. buy only the most undervalued stocks in client portfolios.
C. review the forecasts and assumptions used in the models.

Question 12
When using enterprise value to estimate a company's market value of common equity, an analyst has difficulty finding quotes for the market value of the company's long-term bonds. The market value of company debt is *best* estimated using the:
A. market quotes of similar bonds.
B. bonds' cash flows discounted by 3-month LIBOR.
C. value of the bonds on the company's balance sheet.

Question 13
Which of the following *best* describes the impacts of a reverse stock split on share prices and on the market value of a company's equity?
A. Higher price per share and greater market value of equity
B. Lower price per share and unchanged market value of equity
C. Higher price per share and unchanged market value of equity

Question 14
All else being equal, the impact of a share repurchase on shareholders' wealth is *most likely* similar to the impact of:
A. cash dividends.
B. stock dividends.
C. reverse stock splits.

Question 15
The long-term growth stage of the two-stage dividend discount model is *most appropriately* valued using the:
A. Gordon growth model.
B. capital asset pricing model.
C. free cash flow to equity model.

Question 16
A company issued retractable term preferred shares on June 30, 20X1, with the following characteristics:

Selected Data	
Par value, per share	$25.00
Dividend yield at issuance	6.0%
Dividend payments	Annually on June 30
Retraction date	June 30, 20X8
Maturity date	June 30, 20X9

On July 1, 20X5, an analyst trying to value these shares assumes that the retraction feature will be exercised at par on June 30, 20X8, and that the required rate of return is 7.5%. The analyst's most appropriate conclusion is that the intrinsic value ($) per share is *closest* to:
A. 23.74
B. 24.00
C. 25.00

Question 17
An analyst using the method of comparables is concerned about business cycle effects on price multiples. To address this concern, the analyst would *most appropriately* use the:
A. price-to-sales ratio.
B. earnings per share.
C. price-to-earnings ratio.

Question 18
Which of the following statements is *most* accurate concerning an asset-based valuation model?
A. It derives a firm's equity value from the book value of assets and liabilities.
B. It is appropriate for valuing firms with significant proportions of working capital.
C. It is appropriate for valuing firms with significant proportions of intangible assets.

Question 19
The *best* rationale for matching EBITDA with enterprise value (EV) in the EV/EBITDA ratio is that EBITDA:
A. is a proxy for free cash flow to equity.
B. indicates cash flow to pay all financial stakeholders.
C. excludes all noncash expenses and noncash revenues.

Question 20
An analyst gathers the following information about the common stock of a mature company for which dividend growth is expected to be constant for an indefinite period.

Selected Data	
Current market price	€48.53
Last dividend paid	€1.65
Required rate of return	6.5%
Long-term dividend growth rate	3.1%
Long-term economic growth rate	2.9%

Based on this information, the stock is *most likely*:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 21
An analyst gathered the following price multiples:

Price Multiples 20X9			
Company	P/E	P/S	P/B
X	21.3	2.3	3.5
Y	17.6	1.2	3.4
Z	21.0	1.7	3.2

P/E = Price-to-eamings ratio
P/S = Price-to-sales ratio
P/B = Price-to-book ratio

The analyst will *most appropriately* conclude that which of the following companies is undervalued?
A. Company X
B. Company Y
C. Company Z

Question 22
An analyst gathers the following information related to a company's stock:

Current annual dividend per share	€1.00
Annual dividend growth rate for Years 1–3	6%
Annual dividend growth rate for Years 4+	2%
Required rate of return	10%

If the stock is fairly valued, then the terminal value at the end of Year 3 using the two-stage dividend discount model is *closest* to:
A. €14.20
B. €14.89
C. €15.19

Question 23
An analyst has collected the following data for a noncallable, nonconvertible preferred stock:

Selected Data	
Par value	SAR 25.00
Market value	SAR 24.56
Preferred stock dividend rate	5.6%
Required rate of return	5.7%

Based on this information, the stock is *most likely*:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 24
In valuing equities, a disadvantage of using the method of comparables with price multiples is *most likely* that it:
A. may be unnecessarily complex.
B. does not work well for industry analysis.
C. is impacted by choice of accounting methods.

Question 25
An advantage of using the justified forward P/E ratio in valuation of a company's equity is that it *most likely*:
A. provides a way to compare companies in the future.
B. does not require estimating future company values or cash flows.
C. can be reliably compared to trailing price multiples of other companies.

Question 26
When estimating a company's intrinsic value using an asset-based valuation model, an analyst would *least likely* need the value of the company's:
A. liabilities.
B. preferred shares.
C. capital expenditures.

Question 27
All else equal, an identical increase to a company's long-term growth rate and required rate of return will *most likely*:
A. increase its justified forward P/E ratio.
B. not affect its justified forward P/E ratio.
C. decrease its justified forward P/E ratio.

Question 28
In the two-stage dividend discount model, the second stage *most likely* includes a:
A. constant dividend payout ratio.
B. finite number of years of dividend payments.
C. lower required rate of return than in the first stage.

Question 29
An analyst uses the method of comparables to evaluate cyclical companies during economic downturns. Which of the following ratios is *least likel*y to be useful for that analysis?
A. Price-to-sales
B. Price-to-earnings
C. Enterprise value-to-EBITDA

Question 30
Which of the following is *most likel*y the rationale for using the method of comparables to value equities?
A. Present value
B. Law of one price
C. Competitive advantage

Question 31
To estimate a company's intrinsic value using a present value model, an analyst *most likely* needs to estimate the:
A. fair market value of assets.
B. price multiples of comparable companies.
C. cash flows available to common shareholders.

Question 32
When using present value models for valuing nondividend-paying stocks, which of the following should analysts *most appropriately* discount?
A. Operating cash flows
B. Free cash flow to equity
C. Earnings available to common shareholders

Question 33
An analyst estimates a firm's enterprise value (EV) using an EV/EBITDA multiple and then correctly calculates the firm's implied equity value from its EV. If the equity value is higher than the EV, the *most likely* reason is that:
A. the EV/EBITDA multiple is low.
B. the firm's stock is greatly undervalued.
C. the firm has more cash than debt and preferred stock.

Question 34
An analyst gathers the following information about a stock:

Current market price	€571.19
Current dividend	€40.00
Dividend growth rate for Years 1–3	8%
Dividend growth rate for Year 4 and beyond	2%
Required rate of return	11%

Using a two-stage dividend discount model, the analyst *most appropriately* concludes that the stock is:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 35
The free cash flow to equity model *most likely* focuses on a firm's capacity to:
A. service debt.
B. pay dividends.
C. make fixed capital investments.

Question 36
An analyst gathers the following information about a company stock:

Selected Data	
Earnings retention ratio	40%
Long-term economic growth rate	3%
Long-term dividend growth rate	4%
Weighted average cost of capital	7%
Company justified forward P/E	12

Justified forward price-to-earnings (P/E) ratio using the Gordon growth model implies that the required rate of return is *closest* to:

A. 5%
B. 7%
C. 9%

Question 37
An analyst gathers the following information about the stock of a company and its industry:

	Industry Average	Company
Required rate of return	7.0%	7.0%
Long-term growth rate	6.0%	5.0%
Weighted average cost of capital	5.0%	5.5%
Dividend payout ratio	40.0%	

The company's justified forward price-to-earnings (P/E) ratio is the same as the industry average. The company's dividend payout ratio is *closest*
to:
A. 40%
B. 60%
C. 80%

Question 38
A company has a forward price-to-earnings (P/E) of 5. In reviewing the company's financial data, an analyst estimates a justified forward P/E of 4. Based on the justified forward P/E, the stock is:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 39
Which of the following *least likely* requires a future long-term growth rate for valuation purposes?
A. Justified P/E
B. Dividend discount model
C. Asset-based valuation model

Question 40
An advantage of using a present value model to value a publicly traded company's common stock is *most likely* that there are:
A. many appropriate comparable companies.
B. readily available values for company assets.
C. models to estimate the company's cost of equity capital.

Question 41
An analyst gathers the following information on a company that is expected to experience high dividend growth for 4 years followed by long-term, constant growth:

Current market price of stock	£66.10
Current dividend	£2.00
Annual dividend growth rate, Years 1–4	10%
Annual dividend growth rate, Years 5+	3%
Required rate of return	7%

Using only this data for a two-stage dividend discount model, the analyst's *most appropriate* conclusion is that the stock is:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 42
The Gordon growth model is *most appropriate* for a:
A. mature utility company with steadily increasing earnings.
B. firm reinvesting earnings and not currently paying a dividend.
C. company with earnings growth greater than the required rate of return.

Question 43
An analyst gathers the following information about a company:

Selected Data	
Next year's projected dividends	¥100
Next year's projected earnings	¥260
Long-term dividend growth rate	3%
Required rate of return	5%
Industry average justified toward P/E ratio	21.4

All else being equal, the justified forward price-to-earnings (P/E) ratio implies that, relative to industry peers, the company's stock price is *most likely*:
A. more expensive.
B. fairly priced.
C. less expensive.

Question 44
An analyst gathers per-share information about a company's stock:

Selected Data	
Present value of high-growth stage dividends	$6.58
Dividend at end of Year 3	$2.81
Current dividend	$2.00
Annual dividend growth rate, Years 1-3	12%
Annual dividend growth rate, Years 4+	4%
Required rate of return	7%

According to the two-stage dividend discount model, the asset's intrinsic value is *closest* to:
A. $75.92
B. $80.90
C. $86.10

Question 45
An analyst has calculated a company's enterprise value (EV) and plans to use a multiplier model to analyze valuation. Which of the following is *most appropriately* used to complete this analysis?
A. Book value
B. Net income
C. Total revenue

Question 46
An advantage of using the method of comparables with price multiples is *most likely* that:
A. it works well for relative valuations.
B. the comparison of companies reflects economic fluctuations.
C. it is not affected by reporting rule differences between markets.

Question 47
When considering multiplier models for evaluating public companies, which of the following factors is *most likely* an advantage of using the enterprise value/EBITDA ratio, compared to using the P/E ratio?
A. Ability to find appropriate comparable companies
B. Comparing companies with different capital structures
C. Ease of obtaining an accurate value for the multiple's numerator

Question 48
An enterprise value (EV) multiple *least appropriately* measures a company's EV relative to its:
A. EBITDA.
B. Net income.
C. Operating income.

Question 49
Compared to other equity valuation methods, which of the following *best* describes an advantage of using the method of comparables?
A. It adjusts comparisons for the cyclicality of markets.
B. It provides relative comparisons in cross-sectional and time-series analysis.
C. It allows comparability between companies that use different accounting methods.

Question 50
An analyst has gathered the following information about a company stock:

Selected Data	
Market price of the stock	€31.42
Next year's projected earnings	€1.60
Dividend payout ratio	70%
Required rate of return	8%
Long-term dividend growth rate	5%
Long-term economic growth rate	3%

The justified forward price-to-earnings ratio implies the stock is mispriced in the market by an amount *closest* to:
A. €5.91
B. €8.09
C. €9.02

Question 51
An analyst gathers the following information about three comparable companies:

Price-to-earnings ratios			
Company	20X7	20X8	20X9
X	15.90	19.56	18.79
Y	16.67	18.75	17.50
Z	15.47	18.19	16.23

All other things being equal, based on cross-sectional analysis of the companies during the most recent year, which company is *most likely* overvalued?
A. Company X
B. Company Y
C. Company Z

Question 52
Which of the following models *most likely* estimates equity value from the market value of balance sheet items?

A. Multiplier models
B. Present value models
C. Asset-based valuation models

Question 53
In valuing equities, which of the following is *most likely* an advantage of using the method of comparables?
A. Comparable stocks are readily available.
B. It is easily understood and widely used by investors.
C. Its results are often consistent with other valuation models.

Question 54
According to the two-stage dividend discount model, the second stage *most likely* exhibits dividends growing at a(n):
A. decreasing rate.
B. constant rate.
C. increasing rate.

Question 55
Enterprise value is *most appropriately* viewed as a company's:
A. takeover cost.
B. capital from all sources.
C. equity and liquid investments.

Question 56
A noncallable, nonconvertible, perpetual, preferred stock issued by a UK manufacturing company with £25 par value pays a 6% dividend. The required rate of return is 5%. If the long-term economic growth rate is 3%, the stock's intrinsic value is *closest* to:
A. £23.81
B. £30.00
C. £30.90

Question 57
An analyst gathers the following information about a company:

Selected Data

(€ *millions*)	
Market Value of Preferred Stock	2,050
Short-term Investments	7,500
Market Value of Debt	90,500
Cash Equivalents	9,000
EBITDA	10,200

If the EV/EBITDA ratio is 25.4, the market value of the company's common equity (in € millions) is *closest* to:

A. 150,030
B. 175,530
C. 183,030

Question 58
When projecting free cash flow to equity (FCFE) to estimate a stock's intrinsic value, which of the following is subtracted from the company's projected cash flow from operations (CFO)?
A. Net borrowing
B. Investment in fixed capital
C. Common stock repurchases

Question 59
An analyst has compiled the following information about a company stock:

Selected Data	
Return on equity	7%
Dividend payout ratio	20%
Required rate of return	6%
Weighted average cost of capital	5%
Current market price of stock	CNY 52
Next year's projected earnings	CNY 1

The company's justified price-to-earnings ratio using the Gordon growth model indicates the stock is *most likely*:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 60
An analyst has collected the following data for a noncallable, nonconvertible, perpetual preferred stock:

Required rate of return	5%
Economic growth	4%
Annual dividend	€1.00
Market value	€19.90
Par value	€25.00

The intrinsic value of the preferred stock is *closest* to:

A. €20.00
B. €20.80
C. €23.81

Question 61
An investor evaluates a common stock using two valuation models:

- A free-cash-flow-to-equity model estimates the intrinsic value at 68–71.
- An earnings multiple model estimates the intrinsic value at 62–65.

If the stock is currently trading at 68, the *least appropriate* conclusion the investor can make is that the stock is:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 62
An analyst has gathered the following information about a company:

Selected Data	
Current dividend	€1
Annual dividend growth rate Years 1−4	9%
Annual dividend growth rate Years 5+	3%
Required rate of return	7%

Using the two-stage dividend discount model, the terminal value of the high-growth stage is *closest* to:
A. €35.29
B. €36.35
C. €38.47

Question 63
An analyst gathers the following information about a company:

Metric	£ thousands
Market capitalization	567,100
Cash equivalents	990
Short-term investments	4,730
Accounts receivable	3,390
Market value of debt	765,700
Enterprise value	1,358,000

If the company has 1,160,000 preferred shares outstanding, then based on the company's enterprise value, the appropriate price per share of its preferred stock (in £) is *closest* to:
A. 16.79
B. 26.66
C. 29.58

Question 64
To estimate a common stock's intrinsic value, an analyst has gathered the following data:

- The market value of the company's debt and equity
- One-year forecasts for revenue and earnings
- A list of comparable companies

The analyst is *most likely* using a(n):
A. multiplier model.
B. asset-based model.
C. present value model.

Question 65
A company declares a regular cash dividend. All else being equal, the stock's price will *most likely* fall by the amount of the dividend on the:
A. declaration date.
B. ex-dividend date.
C. holder-of-record date.

Question 66
An analyst has gathered the following information:

Selected Data	
Terminal value of high growth stage	€61.50
Current dividend	€0.81
Dividend, end of first year long-term growth stage	€1.23
Short-term growth rate	13%
Required rate of return	7%
Number of years in high growth stage	3

Using the two-stage dividend discount model, the long-term growth rate is *closest* to:
A. 5%
B. 6%
C. 11%

Question 67
Which of the following is *least likely* needed to value equity using a present value model?
A. Dividends
B. Time horizon
C. Discount rate

Question 68
An analyst compiles the following information to compare price-to-earnings ratios of stocks in the same industry:

Company	20X6	20X7	20X8	20X9
X	17.60	21.09	22.30	24.67
Y	18.56	23.89	26.42	25.30
Z	15.74	25.77	25.11	27.12

Using time-series analysis of the four years of data, as of 20X9, Company X was:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 69
A key assumption relating justified forward P/E ratio to company fundamentals using the Gordon growth model is that a stock's:
A. price is equal to its value.
B. dividend payout ratio increases over time.
C. dividend growth rate is greater than the required rate of return.

Question 70
An analyst gathers the following information about a company:

Selected Data

(CHF *millions*)	
Market value of preferred stock	4
Short-term investments	6
Market value of debt	500
Cash equivalents	3
Enterprise value	1,567

If the company has 50 million common and 160,000 preferred shares, the company's market price per common share is *closest* to:
A. CHF 21.32
B. CHF 21.44
C. CHF 21.61

Question 71
The ex-dividend date is *best* described as the date when:
A. the company pays the dividend.
B. the company declares the amount and timing of the dividend.
C. the stock trades for the first time without the right to the dividend.

Question 72
An asset-based valuation model is *most appropriate* for a company that:
A. is in financial distress and plans to liquidate.
B. acquired a competitor three years ago for a significant premium.
C. has accumulated a significant amount of property, plant & equipment.

Question 73
The EV/EBITDA ratio is sometimes used as an alternative to the P/E ratio since EBITDA is:
A. usually positive.
B. equal to operating cash flow.
C. earnings before adjusting for all noncash expenses and revenues.

Question 74
An analyst gathers the following information about the common stock of a mature company, with dividend growth expected to be constant for an indefinite period.

Current market price	$107.36
Long-term dividend growth rate	4.0%
Industry dividend growth rate	3.6%
Required rate of return	6.5%

Assume the stock is fairly valued. Based on this information and the appropriate valuation model, the amount of the company's last dividend paid is *closest* to:
A. $2.58
B. $2.68
C. $3.01

Question 75
Which of the following *most likely* combines an estimate based on a present value model with a fundamental variable?
A. Justified forward price-to-earnings ratio
B. Trailing 12-month price-to-earnings ratio
C. Cross-sectional comparison of price-to-earnings ratios

Question 76
Regarding equity valuation, which of the following *most likely* relies on the law of one price?
A. A year-on-year comparison of a company's stock price.
B. A cross-sectional comparison of P/E ratios across automobile manufacturers.
C. A comparison between a justified P/E ratio and a trailing 12-month P/E ratio for a stock.

Question 77
The two-stage dividend discount model is *most appropriate* for a company expecting:

A. high growth for a specified number of years, then higher growth.
B. constant growth for a specified number of years, then high growth.
C. high growth for a specified number of years, then lower, long-term growth.

Question 78
An analyst expects a company to pay its first dividend of SGD 5 per share in 4 years and expects this dividend to grow at a rate of 4% thereafter. The required rate of return is 9% and the expected market return is 10%. If the stock is currently trading at SGD 73.68, then based on the dividend discount model, the analyst should *most appropriately* classify the stock as:
A. undervalued.
B. fairly valued.
C. overvalued.

Question 79
An analyst estimates the following information about a company's stock:

Selected Data	
Year 3 value of long-term dividends	£66.00
Dividend at end of Year 4	£1.32
Current dividend	£0.93
Annual dividend growth rate Years 1 to 3	11%
Annual dividend growth rate Years 4 +	4%
Required rate of return	6%

According to the two-stage dividend discount model, the stock's current intrinsic value is *closest* to:
A. £55.34
B. £58.48
C. £60.59

Question 80
Which of the following is the *best* reason for a firm to engage in a share repurchase?
A. Exert greater control in voting shares for proxy issues.
B. Control the timing and size of shareholder distributions.
C. Receive regularly scheduled cash dividends from repurchased shares.

Question 81
An analyst estimates a company's ratio of enterprise value (EV) to EBITDA to be 10 based on peer analysis. The analyst gathers the following company information:

	INR millions
Cash and cash equivalents	80
Book value of debt	800
Market value of debt	725
Short-term investments	25

If the company is expected to report EBITDA of INR 200 million this year, its market capitalization (in INR millions) is *closest* to:
A. 1,305
B. 1,355
C. 1,380

Question 82
Asset-based valuation models are *most likely* appropriate for which of the following public company types in estimating the company's intrinsic value?
A. Financial
B. Manufacturing
C. Pharmaceutical

Question 83
An analyst uses the method of comparables to compare the price multiples of a company stock over multiple years. This is *best* described as:
A. regression analysis.
B. time-series analysis.
C. cross-sectional analysis.

Question 84
An analyst gathers the following information about a company's stock:

Selected Data	
Current dividend	€1
Annual dividend growth rate, Years 1–2	7%
Annual dividend growth rate, Years 3+	2%
Required rate of return	6%

According to the two-stage dividend discount model, the intrinsic value of the stock in Year 0 is *closest* to:
A. €26.54
B. €27.50
C. €28.01

Question 85
An analyst considers using the P/E ratio to compare equity investments. In making the decision, the analyst should remember that the justified forward P/E ratio is *most likely* a(n):
A. valuation method approved by certain regulatory authorities.
B. past prediction of a price multiple that has proven to be accurate.
C. estimate based on predictions of future cash flows or fundamentals.

Question 86
An analyst has gathered the following information about a company stock:

Selected Data	
Earnings retention ratio	55%
Long-term economic growth rate	4%
Required rate of return	9%
Weighted average cost of capital	7%
Company justified forward P/E	30

The company's justified forward price-to-earnings ratio using the Gordon growth model implies the long-term dividend growth rate of the company is *closest* to:
A. 2.5%
B. 7.0%
C. 7.5%

Question 87
An analyst compiles the following P/E ratios of comparable companies:

P/E Ratios				
Company	20X6	20X7	20X8	20X9
X	15.40	17.09	19.56	17.39
Y	14.83	17.15	18.75	19.53
Z	15.74	16.27	19.60	16.50

Using time-series analysis for the period from 20X6 to 20X9, the analyst would most appropriately conclude that, as of the end of 20X9, which company is fairly valued?
A. Company X
B. Company Y
C. Company Z

Question 88
When using the method of comparables with time-series analysis to value a company's stock, the benchmark for the price multiple of the stock would *most appropriately* be a price multiple:
A. of another similar stock over time.
B. that is an average for the stock itself over time.
C. that is an industry average in one or more years.

Question 89

The two-stage dividend discount model is *most appropriate* for a company in its:

A. growth stage.

B. maturity stage.

C. transition stage.

Question 90

An analyst wants to use the asset-based valuation approach to determine the intrinsic value of a company's stock and gathers the following data:

Modified Balance Sheet (USD *billions*)	
Current assets	30
Long-term assets	40
Total assets	70
Current liabilities	25
Long-term debt	20
Shareholders' equity	25
Total liabilities and equity	70

To reflect fair values, the analyst believes that the long-term assets should be adjusted down by 25% and the long-term debt should be adjusted up by 5%. If there are 500 million shares currently outstanding, and the company's stock trades at $29 per share, then the stock is *most likely*:

A. undervalued.

B. fairly valued.

C. overvalued.