

Activity 11

Stock Valuation

Group:

Section:

1. Agilent Technologies (TKR="A") does not currently pay a dividend. However, their earnings have been growing at a very high rate. Thus, they are expected to begin paying a dividend 5 years from today. The first dividend is expected to be \$0.50 per share, and the dividend is then expected to grow at 35% per year for the next 7 years. At the end of that super-normal growth period, the stock will enter a slower growth perpetuity phase of 8% per year. The required return on Agilent stock is 12%. What should their current stock price be?

2. Merck just announced FDA approval for a new cancer therapy. Given this news, their expected growth rate over the next 5 years just went up to 15%. Their previous dividend (which you just missed) was \$2. Your expectation of their *eventual* normal growth rate is 6%, and your required return is 12%. What should you be willing to pay for their stock?