**Stock Valuation**

**Zero growth stock**

Rainbow Rentals pays a constant annual dividend of $1.00 per share on their common stock.

How much are you willing to pay for one share of this stock if you want to earn a 9% rate of return?



Bits ‘n Pieces pays a constant annual dividend of $.50 a share. The market price of the stock is $5.41 today.

What is the rate of return on this stock?



The common stock of Kathy’s Antiques, Etc. is priced at $12.50 a share. The stock provides a 10% rate of return. The company pays a constant dividend.

What is the amount of the annual dividend?



**Constant growth stock**

JLE, Inc. just paid their annual dividend of $1.10 a share. JLE’s policy is to increase the dividend by 2% annually.

How much are you willing to pay today for a share of this stock if you require an 11% rate of return?



SLG, Inc. announced today that they will be increasing their annual dividend to $1.60 per share next year. After that, they expect to increase the dividend by 3% annually. You want to buy shares of stock in this company but can not afford to do so for another two years. At that time, you will buy shares if you can earn a 12% rate of return.

How much will you be willing to pay for one share of this stock two years from today?



Alex’s Ventures, Inc. stock has a 13% rate of return and a current market price of $16.18. The company pays annual dividends. The last dividend paid was $1.40 per share.

What is the growth rate of this stock?



C and F Fabrics is going to pay an annual dividend of $1.36 per share next week. The dividends have been increasing by 2% annually and this trend is expected to continue. The stock is selling for $15.11 per share.

What is the market rate of return on this stock?



The Thomas Co. is in a declining industry and has just announced that they will be reducing their annual dividend by 2% annually from now on. The last dividend they paid was $1.60. The market rate of return on this stock is 6%.

What is the market price of one share of Thomas Co. stock?



**Irregular growth stock**

Isaac’s Shoes just announced that they will commence paying annual dividends next year. The plan is to pay $.50, $.75 and $1.00 per share over the next three years, respectively. After that the company plans on increasing the dividend by 2.5% annually. The market rate of return on this stock is 12.5%.

What should the market price of this stock be?



Nu-Tek, Inc. just paid their annual dividend of $1.20 per share. The company has stated that dividends will increase by 20% a year for the next two years. After that, the dividends will increase by 4% annually.

What is one share of this stock worth today if the required return is 14%?



RPJ, Inc. is currently reinvesting all of their earnings back into the company. They predict that they will pay their first annual dividend five years from now in the amount of $1.00 per share. After that, they will increase the dividends by 2% annually.

How much are you willing to pay for one share of this stock today if you require a 15% rate of return?



**Required return**

The common stock of Flo’s Home Furnishings has a 3.5% dividend yield. You expect the company to grow by 6% annually.

What is the required return on this stock?



The common stock of Roy’s Outdoor Sports Store has a market rate of return of 17.5% and a market price of $15.00 per share. Roy’s will pay their annual dividend next week in the amount of $2.10 per share.

What is the capital gains yield on this stock?



The common stock of Viola’s Flowers, Inc. has a required return of 12.25% and a growth rate of 8%. The stock has a current market price of $32.94 a share.

What is the amount of the next annual dividend?



**Preferred stock**

The 7% preferred stock of Lamey, Inc. is priced to yield a 12.5% rate of return.

What is the market price of this stock?



The 9% preferred stock of Eglon, Inc. is selling at a market price of $72.00 a share.

What is the market rate of return on this stock?



The preferred stock of the P ‘n T Co. is selling for $67.26 a share and provides an 8.55% rate of return.

What is the amount of the preferred dividend per year?



The Oil Town Co. pays dividends on their 6% cumulative preferred stock on an annual basis. The company has not paid this dividend for the last two years. This year the company is doing better financially and wants to pay dividends on both their preferred and their common stock.

What is the minimum amount they must pay per share to their preferred stockholders before distributing any dividends to their common stockholders?

Would your answer differ if the preferred stock was non-cumulative?

**Annual dividend = .06 × $100 = $6.00**

**Minimum due per share to the preferred stockholders:**

**Cumulative:**

**$6 + $6 + $6 = $18**

**Non-cumulative:**

**$6**