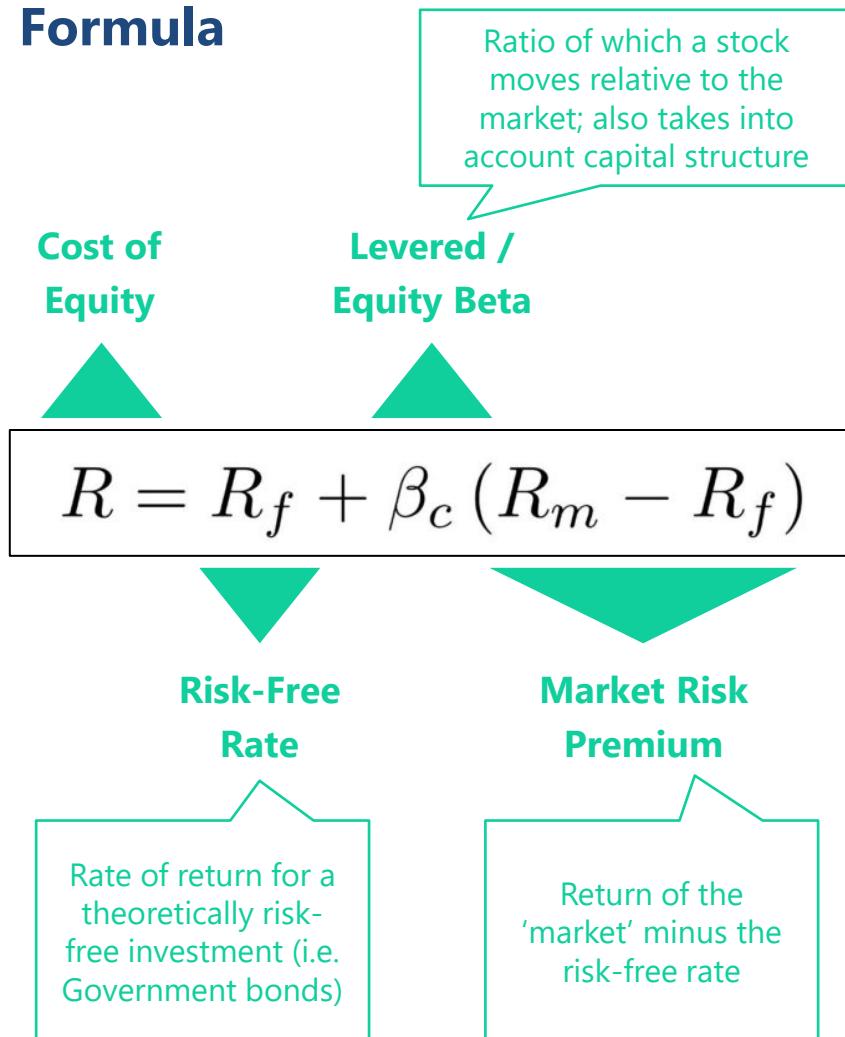


# Using the CAPM to Calculate the Cost of Equity

## Formula



## Assumptions

	Description & Source	Model Input
<b>Risk-Free Rate</b>	<ul style="list-style-type: none"> <li>10-Year Government Bond rate of home country of stock</li> <li><a href="https://www.bloomberg.com/markets/rates-bonds/government-bonds/australia">https://www.bloomberg.com/markets/rates-bonds/government-bonds/australia</a></li> <li>However, given record low interest rates, many analysts and investors are using longer-dated averages (~3.0%)</li> </ul>	3.0%
<b>Levered / Equity Beta</b>	<ul style="list-style-type: none"> <li>Typical to use 3-year beta for a stock (how closely it moves with market)</li> <li><a href="https://www.infrontanalytics.com/fe-en/AU000000BLD2/Boral-Limited/beta">https://www.infrontanalytics.com/fe-en/AU000000BLD2/Boral-Limited/beta</a></li> </ul>	1.67
<b>Market Risk Premium</b>	<ul style="list-style-type: none"> <li>'Market return' minus the risk-free rate – i.e. extra return for investing in risky assets</li> <li>Select Australia as home country of stock and main operating geography</li> <li><a href="http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html">http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html</a></li> </ul>	4.72%