Subject

AJM250 13 March 2013

Stock valuation

Behavioural finance

regret theory

Debt vs equity

Preferred vs common stocks

going public

dent valuede perh

Value today

dividend PV of future cash flow

$$P_0 = \frac{D_1}{(1+r_s)^1}$$

zero growth model

$$P_0 = D_1 \times \frac{1}{\dots} = \frac{D_1}{r_s}$$

$\frac{3}{0.15}$ → dividend indicating

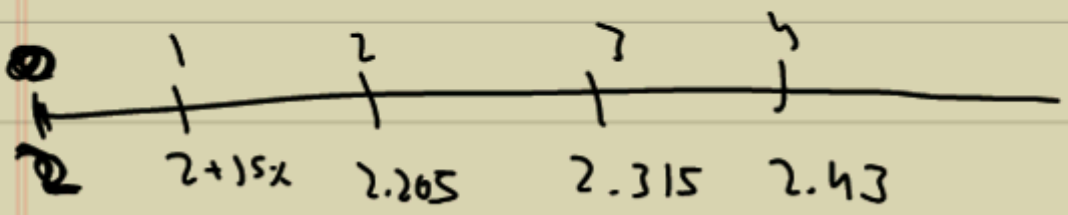
→ return on stock is 15%

Dividend grow every 2 years

$$P_0 = \frac{D_1}{r_s - g}$$ ← gordon model

→ growth rate

⇒ Constant growth model



$$P_4 = \frac{D_5}{r-g}$$

$$P_4 = \frac{2.431 \times 1.03}{0.08 - 0.03}$$

$$= 50.08$$

Growth rate

$$P_0 = \frac{2.1}{1.08} + \frac{2.205}{(1.08)^2} + \frac{2.315}{(1.08)^3}$$

$$+ \frac{2.43}{(1.08)^4} + \frac{50.08}{(1.08)^4} = 44.27$$

Company doesn't pay dividend