International Corporate Finance 2020-21 Coursework Assignment
Company Model Answer
Edinburgh plc

<u>Equity valuation and dividend policy</u>

Clean share price (p)		1100	-	0	=	1100					
						Company		Index		**Hence apparently:**	
Prospective PER		1100	÷	52.8	=	**20.8**	vs	16.5		**Overvalued**	
Prospective DY		41.4	÷	1100	=	**3.8%**	vs	4.5%		**Overvalued**	
					Actual					**Forecast**	
		2017		**2018**		**2019**		**2020**		**2021**	**2022**
EPS annual change		+1.4%		+1.4%		+1.6%		+1.5%		+1.5%	+1.5%
DPS annual change		+3.4%		+3.6%		+3.5%		+3.5%		+3.5%	+3.4%
Dividend cover		1.38		1.35		1.33		1.30		1.28	1.25

Hence regular dividend policy: **Progressive**

<u>Cost of capital and financial gearing</u>

Dividend growth rate	(		^{4}√(	40.0	÷	34.8	))-	1	=		3.54%
Cost of equity estimate	(	40.0	x	1.04	÷	1100	)+	3.5%	=		**7.31%**
Equity market value (£m)		11.00	x	50.00	=						**550.00**

Settlement and maturity dates		12/01/21	+	13		years	=				12/01/34
Post-tax coupon		8.0%	x(	1	-	20%	)=				6.40%
Clean bond price (£)		132.00	-(	3	÷	6	x	4.00	)=		130.00
Redemption amount											100.00
Number of interest payments p.a.											2
Cost of debt calculation	using =YIELD formula and above inputs										**3.51%**
Debt market value (£m)		130.00	÷	100	x	50	=				**65.00**

Total market value		550	+	65							**615**
Weighted average cost of capital	(	<u>550</u>	x	7.3%	)+(	<u>65</u>	x	3.5%	)=		**6.9%**
		615				615					

Financial gearing		65	÷	615	=						**10.6%**
Average level of competitors		25%									

Hence financial gearing should be: **Increased and M&M's with-tax theory approximates to the trade-off theory**

If gearing is increased to the average level of competitors, the company's:

Total market value (£m) increases to approximately	**634**
Weighted average cost of capital decreases to approximately	**6.7%**