In this report, some financial aspects of Edinburgh pls are presented to make the right decision. They are:

- The company’s equity valuation;

- The international expansion project in Belgium;

- The company’s current capital structure and the recommendation;

- The company’s dividend policy and the recommendation.

1. **Equity valuation**

Non-cash flow methodologies are used to evaluate equity value.

a/

Price earnings ratio (PER) displays how much a shareholder is prepared to pay for a share, assumed its current earnings per share (EPS). Therefore, PER can show the investors’ confidence in the expected future performance of a firm. (Watson et al 2019)



The figure 1 shows the PER is 20.8 is above Index PER +10% (18.2), shares appear overvalued. (Appendix)

b/

Dividend yield (DY) provides a measure of potential return investors expect to receive in exchange for acquiring a specified share. (Watson et al 2019)





The figure 2 indicates DY is 3.8% is below Index DY -10% (4.1%), shares appear overvalued. (Appendix)

**Conclusion**

* When prospective PER of FTSE All‐Share index is 16.5, the company PER (20.8) is above Index PER +10% (18.2), then shares appear overvalued. However, future earnings per share growth expectations are nearly 2% for both 2021 and 2022 (Appendix). Therefore, shares are not justified by weak future profit growth expectations.
* When prospective DY of FTSE All‐Share index is 4.5%, the company DY (3.8%) is below Index DY -10% (4.1%), then shares appear overvalued. However, future dividend growth expectations are 4% and 3% for 2021 and 2022, respectively (Appendix). Therefore, shares are not justified by slow future dividend growth expectations.
* Overall, the company’s shares are not fairly valued by the equity market. They are overvalued.

1. **International expansion project in Belgium**

**a/ Cost of Equity (KE)**



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Figure 3 indicates KE is 7.31%. (Appendix)

**b/ Cost of debt (****KD)**

Figure 4 below shows KD is 4.01%. (Appendix)





**c/ The weighted average cost of capital (WACC)**

The WACC renovates market prices of a business’ securities to a money discount rate for investment appraisal purposes. Figure 5 indicates WACC is 7%.

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**d/ Investment appraisal methodologies:**

Assume that Edinburgh pls intends to hedge its foreign exchange exposure and in money term if it sets up the facilities in Belgium.

**-** Net Present Value (NPV) method uses discounted cash flows to evaluate capital investment projects. A positive NPV shows that an investment project can generate a return in surplus of the cost of capital and will lead to a rise in shareholder wealth. (Watson et al 2019).

Figure 6 shows that NPV of expansion project in Belgium is 986.344 GBP which is positive, company should set up the facility.





- Internal Rate of Return (IRR) method is the cost of capital. With an IRR greater than the company’s cost of capital or hurdle rate, we can accept all independent investment projects. (Watson et al 2019).

Figure 7 indicates that IRR of expansion project in Belgium is 13.8% is higher than the cost of capital (7.31%), company should set up facility.





- Discounted Payback Period (DPP) is the period for a project’s initial cash outflows to be recovered. Figure 8 shows that DPP of expansion project in Belgium is 6.94 years.

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**e/ Advice:**

Although the project's DPP (6.94 years) is longer than the 4 years hurdle period but IRR (13.8%) is higher than the cost of capital (7.31%) and it has a positive NPV (+986.344 GBP), therefore the company should accept the expansion project in Belgium and it is forecast to increase shareholder wealth.

1. **Capital structure**

Financial gearing calculation:





**Conclusion:**

- Figure 9 indicates that current financial gearing is 10.1% (appendix) is below the optimal level of financial gearing (25%). Therefore, according to M&M's with-tax theory the company’s current capital structure is sub – optimal.

- We should increase gearing between 25% and 50% which often is measured optimal or normal for corporations because shareholders will benefit from the tax shield or their wealth grows.

- There are some methods to raise gearing, including decreasing the speed of accounts receivable collections, increasing inventory levels, shorten the days required to pay accounts payable or issuing more shares.

1. **Dividend policy**

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The company’s regular dividend policy can be best described as constant pay - out because its level of dividend cover is held constant (1.4 or 1.3) in years when earnings per share have increased.

According to M&M’s irrelevance theory, dividend policy is irrelevant to shareholder wealth. Moreover, this theory is constructed on perfect market assumptions which do not exist in the real world. Therefore, dividend relevance theories are applied.

The dividend per share forecasted in 2021 and 2022, the dividend per share increases by 41.4p and 42.8p, respectively. There is a continuation of constant pay - out dividend policy in years as the dividend cover is held constant at 1.3. However, this dividend is in line with market expectations, the share price is unlikely to vary. Therefore, based on the dividend relevance theories, Edinburgh plc should increase the dividend in line with market expectations.

There is not any optimal dividend policy to exploit shareholder wealth but it can be demolished by unpredictable policies. We should evade the downfall of shareholders wealth by:

• In “standard” years, remaining unchanging this policy and when dividend increases, paying special dividends;

• Rising growth buy-back and/or rate shares in “good” years;

• Risk the dividend shelter to weaken the growth rate in “bad” years;

• In “bad” years, cutting the dividend.

# CONCLUSION

In conclusion, the analysis has showed financial results for Edinburgh plc’s current concerns which includes the equity valuation, current capital structure, dividend policy and the consideration of expansion. In the report, the company’s share is overvalued. Moreover, the current capital structure is not optimal so that company should increase financial gearing. In addition, the company’s dividend policy is constant - payout. Finally, Edinburgh pls should invest in expansion project in Belgium.