Tutorial - Valuation

Question 1
Discuss why required rate for equity (cost-of-equity, ke) is generally expected to be greater than required rate for debt (the cost-of-debt, kd) and why ke and kd vary among securities.

Question 2
Price a bond that has face value of $100.00, pays an annual coupon of 8.00%, yields 8.00% p.a. and matures in

a. 5 years
b. 10 years
c. 5 years and 10 years, but with a 9.00% p.a. yield
d. Given your earlier answers, which bond (the 5-year or 10-year) is more sensitive to changes in yield?

Question 3
From the following information, answer the questions below. A bond has a face value of $100.00, annual coupon of 10.00%, three years to maturity and a yield of 12.00% p.a.

a. Why will this Bond sell at a discount?
b. What are the cash flows for each year?
c. What is the price of the Bond?
d. What is the price of the Bond if the required rate of return drops to 10.00% p.a.?

Question 4
A bond has a face value of $100.00, a 10.00% annual coupon and 5 years to maturity.

a. When will the bond sell for a discount?
b. When will it sell for par-value?
c. When will it sell for a premium?
d. To confirm your answers to a), b) and c), value the bond with yields of 9.00% p.a., 10.00% p.a. and 11.00% p.a.

Question 5

a. A bond with a face value $1,000 has a coupon rate of 8% and the market rate of 10%. What is the bond's price?

b. A 6-year ABC bond (face value of $1000) pays interest of $80 annually and sells for $950. What are its coupon rate and yield to maturity? If ABC wants to issue a new 6-year bond at the same face value and price, what will the new coupon rate be?

c. SH Corp. has issued 9% annual coupon bonds with a face value of 1000 USD that are now selling at a yield to maturity of 10%. What is the price of these bonds?

Question 6
A bond with a face value $1,000 has a coupon rate of 8% and the market rate of 10%. What is the bond's price? A 30-year Treasury bond is issued with face value of $1000, paying interest of $60 per year. If market yields increase shortly after the T-bond is issued, what happens to the bond's

a. coupon rate?
b. price?
c. yield to maturity?

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Question 7
Fill in the table below for the following zero-coupon bonds. The face value of each bond is $1,000.

Price	Maturity (years)	Yield to maturity
$300	30	-
$360	-	8%
-	10	10%

Question 8
A bond has 10 years until maturity, a coupon rate of 8%, and sells for $1100.
a. What is the current yield on the bond?
b. What is the yield to maturity?
c. If after one year from now the bond has a yield to maturity of 8%, what will its price be? What will be the rate of return on the bond?

Question 9
Calculate the market price of an 8% -coupon bond with a face value of $1,000, 3 years to maturity, given the yield to maturity expected by investors is:
a.5%
b.8%
c.10%
d. When the yield to maturity is lower than coupon rate, bonds sell at a price lower or higher than par value?

Question 10
If each of two stocks are currently paying $1.00 dividend per share but the earnings of stock B are expected to grow at twice the 4.00% p.a. rate anticipated for stock A, and if investors require a return of 10.00% p.a. on each stock, stock B would currently sell for twice the price of stock A. True or False? Explain.

Question 11
Catty Company has just paid a dividend of $0.50. Dividends are expected to grow by 5.00% for the next 4 years, and then they are expected to grow by 3.00% indefinitely. If the required rate of return on Catty's shares is 10.00%, what is the current price of the shares?

Question 12
Spec Company is expected to pay dividends of $0.20, $0.30 and $0.40, in years 3, 4 and 5, respectively. After the dividend in year 5, all dividends are expected to grow by 4.00% per year indefinitely. Calculate the current price of a Spec Company share if the required rate of return on the share is 13.00%.

Question 13
Babby Company has just paid a $0.90 dividend and dividends are expected to grow at a rate of 5.00% per annum indefinitely. Calculate the current price of the share if the required rate of return on these shares is 12.00%.

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Multiple choice questions

Question 14

A 10.00% coupon bond has annual coupon payments, three years to maturity and yields 8.00%. What price will the bond trade at?

a. $ 95.026
b. $100.000
c. $105.154
d. $113.420
e. Cannot be determined

Question 15

A bond with face value of $100.00 and coupon of 8.00% per annum is priced at $100.00. The current annual required rate of return on the bond is 8.00%. What is the maturity of the bond?

a. 1 year
b. 3 years
c. 8 years
d. All of a, b, c are possible
e. Cannot be determine

Question 16

The yield increases on a bond that pays a 5.00% annual coupon. Given this increase, it can be said that the bond's price:

a. Will increase.
b. Will increase and the bond will sell at a premium.
c. Will decrease.
d. Will decrease and the bond will sell at a discount.
e. Will not change.

Question 17

XYZ Corporation has just paid a dividend of $0.50 per share. The current growth rate is 3.00% and shareholders require a return of 10.00%. What is the current market price of the share?

a. $ 5.00
b. $ 7.14
c. $ 7.36
d. $16.67
e. Cannot be determined

Question 18

XYZ Corporation has just issued a dividend of $0.375 per share. Dividends are expected to grow at a rate of 25.00% for the first two years and then at 7.00% indefinitely. If the required rate of return is 15.00%, what is the price of the share today?

a. $4.43
b. $4.47
c. $5.54
d. $5.68
e. $6.7