Meme stocks (a case of AMC)

You will learn the practicality of the implied growth rate and geometric average from this real-world example.

AMC stock on 6/9/2021

1. I want you to google news about AMC stock from 6/01/2021 to 6/9/2021 to get the sense of what was going on:
   1.1 Put “AMC stock” into the search box
   1.2 Click TOOLs and pick Custom date range to be from 6/01/2021 to 6/9/2021
   1.3 By doing so, you will see the news during that period of time and you will understand how people (e.g. investors, media, etc) felt about this stock at that moment. I want you to visualize yourself as one of these people at that particular point in time. Take a look at the Bloomberg screen shots below. I took them on 6/9/2021 as you can see from the lower right corner so I can archive my analysis that I will show you below.

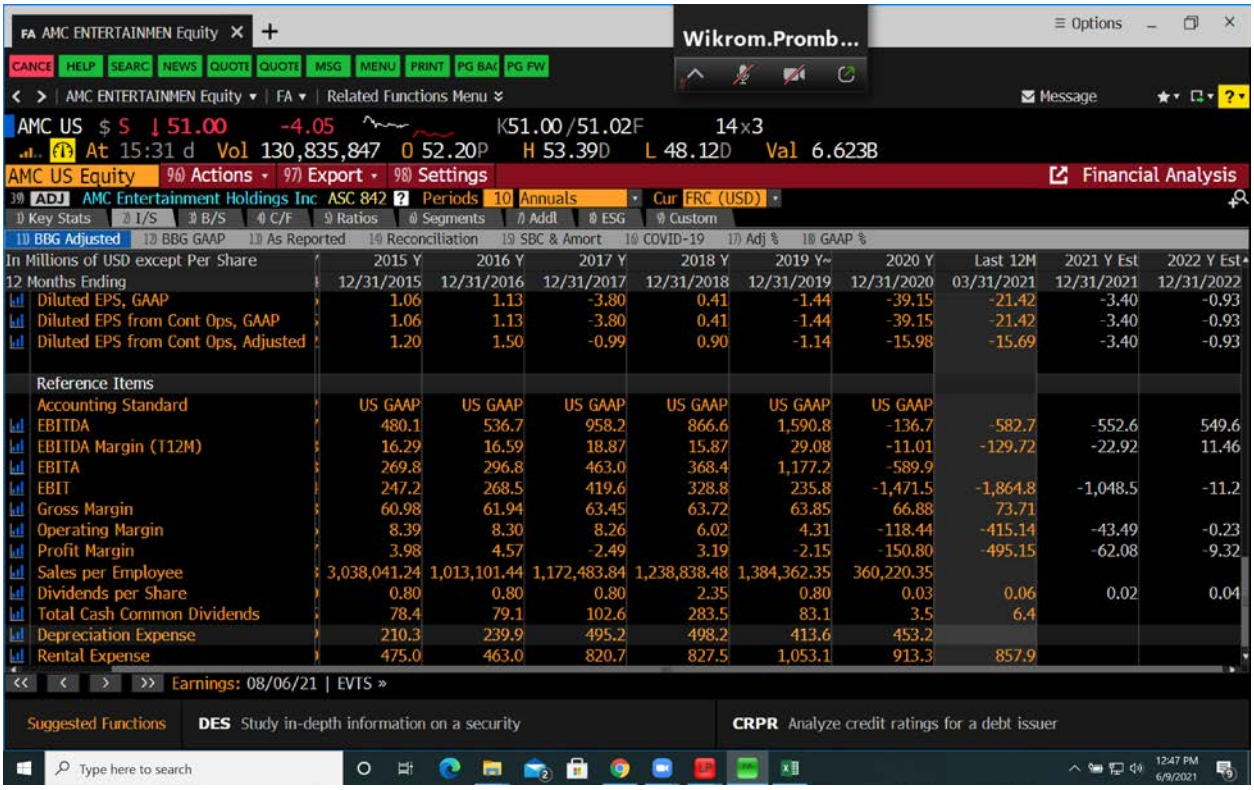

Figure 1: Use the Last 12M column to be ‘time zero’. So D_0= $**A.AA**. It is the dividend that is JUST PAID as I teach you in class. That is, it is the latest available dividend information we could obtain. The 2021Y Est and 2022Y Est numbers are estimated. They are not the actual number.

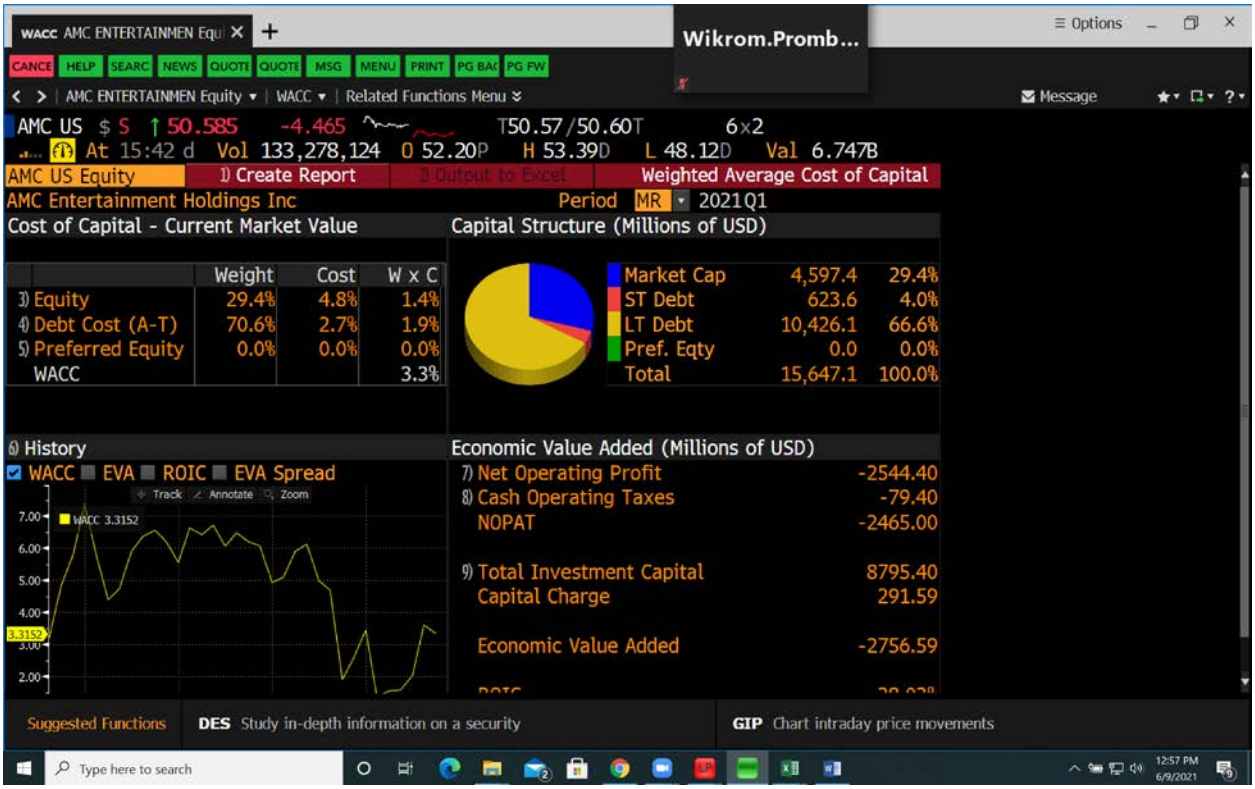

Figure 2: By typing WACC into the search box of your Bloomberg terminal, you will get the screen shot above. Use cost of equity to be the discount rate. It is 4.8 %. Your textbook might use R_E or k to denote this rate.

Given the current price around \$50, D_0 of \$**A.AA**, and the discount rate of **B.B** %, can you solve for the g rate using Dividend Growth Model (i.e. Constant Growth Model)? This is what we call the implied growth rate.

$50= D_0 (1+g)/(k-g)$

g = **C.CC** %

That is, to justify the current price of \$50, the firm has to grow its dividends by C.CC % per year indefinitely.

Is this rate high or low? Well, I don't know but let's compare this implied growth rate to the growth rate that happened in the past for this stock.

Do you see the dividends from 2015Y to 2020Y? I want you to find the geometric average annual growth rate (i.e. compound annual growth rate) of these dividends for me.

That is, I want you to find the dividend growth rates from 2015 to 2016, 2016 to 2017, 2017 to 2018, 2018 to 2019, and 2019 to 2020. With this five rates, find their geometric average. See the attached spreadsheet if you need some hints.

With your calculation, the compound annual growth rate of the dividends in the past 5 years is **-DD.DD** %

So now you have to ask yourself if the firm can really grow its dividends sustainably at the rate of **C.CC** % forever if it can do **-DD.DD** % per year in the last 5 years.

If you think that the firm cannot maintain that growth rate forever, then it means the current price (on 6/9/2021) of $50 cannot be justified. The price is just too high.

Put all your answers in the Mini Task#2 in the Quizzes tab. The answers are indicated by all the highlighted above.

For example, A.AA means you answer must be one digit with two decimals. -DD.DD means your answer must be two digits with two decimals and a negative sign in front of the value.

Then go to Grades tab to see if you earn 0.25 point from each of your answer. If you did not get 0.25 point, it means you provided an incorrect answer. Try it until you earn 1 point. I allow unlimited attempts. The deadline is right before the final exam.

Note: if you think that using these particular last 5-year data might be subjective and arbitrary, I admire your rational/logical thought. Simply go to the Bloomberg terminal and take a look at the dividends before those 5 years. How much did it pay? If you include those numbers into your analysis, do you think the historical growth rate will be better or worse?