Finance: investment and common stock

CFGB6102 Corporate Finance Stock Valuation 1. A firm's common stock currently sells for $75 per share. The firm has total assets of $1, 000, 000 and total liabilities, including preferred stock, of $350, 000. If the firm has 10, 000 shares of common stock outstanding, (a)what is the book value of each share of common stock? (b)is the stock overvalued or undervalued in the marketplace? (c)what might be the reason(s) for your answer in (b). (a) (b)overvalued c)market value of the assets is greater than the book value. 2. A firm has current assets of $800, 000, which can be liquidated at 90 percent of book value. Total liabilities, including preferred stock, equal $270, 000. The firm has 15, 000 shares of common stock outstanding. What is the liquidation value per share of common stock? 3. Antique Replicas, Inc. , has a beta of 1. 40, the annual risk free rate of interest is currently 10 percent, and the required return on the market portfolio is 16 percent.

The firm estimates that its future dividends will continue to increase at an annual compound rate consistent with that experienced over the 2000–2003 period. YearDividend 2000$2. 70 20012. 95 20023. 25 20033. 40 (a) Estimate the value of Antique Replicas, Inc. , stock. (b) A lawsuit has been filed against the company by a competitor, and the potential loss has increased risk, which is reflected in the company's beta, increasing it to 1. 6. What is the estimated price of the stock following the filing of the lawsuit. (a)ks ? 0. 10 ? 1. 4(0. 6 – 0. 10) ? 0. 184 growth rate of dividends ? $3. 40/$2. 70 ? 1. 259 FVIF3, k ? 8% Po ? $3. 40(1. 08)/(0. 184 – 0. 08) ? $35. 31 (b)ks ? 0. 10 ? 1. 6(0. 16 – 0. 10) ? 0. 196 Po ? $3. 40(1. 08)/(0. 196 – 0. 08) ? $31. 66 4. Tangshan China's stock is currently selling for $160. 00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. In addition, Tangshan China's most recent dividend was $5. 50. The expected risk free rate of return is 3 percent, the expected market return is 8 percent, and Tangshan has a beta of 1. 0. (a)What is the expected return based on the dividend valuation model? (b)What is the required return based on the CAPM? (c)Would Tangshan China be a good investment at this time? Explain (a)ks ? [$5. 50(1. 05)]/$160. 00 ? 0. 05 ? 8. 6% (b)ks ? 0. 03 ? 1. 2(0. 08 – 0. 03) ? 9% (c)The expected return is 8. 6 percent but the required return is 9 percent. Based on this information, Tangshan is overvalued and would not be a good investment at this time.