

# Present value case study examples

Business, Company



My reference company is Apple Inc., which currently trades at 535.73 dollars a share. I think that the futures of 100 shares of Apple Inc. are currently worth 60,000 dollars. This means that Apple shares to be delivered to me in a year's time are worth 600 dollars each. This is because Apple has a great potential and I expect that its shares will appreciate in the coming months. However, I do not expect the share price for Apple Inc. to appreciate by huge margins because I strongly believe that market projections have been undervaluing the company's share price for a very long time. Therefore, the same scenario will continue to play a part in the valuation of Apple Inc. stocks. The current bull and bear share price predictions for Apple Inc. do not offer a middle ground for the company. This best explains why the share prices for Apple Inc. have been conservative (Quir, Fur, Salvi, & Vernimmen, 2011). This is despite the fact that the company has been recording exemplary financial performance in the last five years. A closer look at the share price performance of the Apple Inc. stock reveals that the company experienced a consistent improvement in share price from 2009 to 2012. In 2012, the company hit an all-time high of 700 dollars a share. Since then, the company has been recording mixed results in terms of its share performance.

Even though Apple Inc. has not been recording consistent performance in its share price performance, I strongly believe that the company has a lot of high potential to improve its share price. The greatest potential for the company to improve its share performance is its buyback plan. Apple Inc. announced a 60 billion dollar buyback plan that will enable the company to buy its own outstanding shares thereby boosting its share price faster than

otherwise (Dlabay & Burrow, 2007). The company will be able to repay its debts using its earnings enabling it to record higher earnings per share. This is because the company will have very few outstanding shares. In recent periods, the Apple Inc. stock as well as the company's underlying businesses has been fluctuating. The company's gross profits reached an all-time high and later on proceeded to a downward trend (Quir, Fur, Salvi, & Vernimmen, 2011). To make matters worse, the company has been experiencing decelerated growth in its revenues. In fact, the company's earnings-per-share ratios have dipped into the negatives. This is a very worrying trend for any investor. However, I do not consider the company's stock as risky because Wall Street is yet to react. Furthermore, the company has placed announced a repurchase program that will ensure the company's stock remain conservative (Dlabay & Burrow, 2007).

My perspective is that Apple's business is doing fine and it has the potential of growing its earnings-per-share at a very slow rate. My bet is that the company will record a 3 percent growth rate in its EPS. Assuming a growth rate of 3 percent per annum, a discounted cash flow valuation (using a 10 percent discount rate and excluding dividend cash flows) suggests that the company's shares will be worth 618 dollars a share. This is a potential profit for my futures worth 600 dollars a share for the Apple Inc. stock. An alternative investment is opening a fixed deposit account which offers an interest rate of 1.5 percent per annum. This is a lower return compared to the potential return associated with investing in Apple Inc. stock. The potential return from investing in Apple Inc. is 3 percent.

## **References**

Dlabay, L. & Burrow, J. (2007). Business Finance. New York: Cengage Learning.

Quir, P., Fur, Y., Salvi, A. & Vernimmen. (2011). Corporate Finance: Theory and Practice. Chicago: John Wiley & Sons.