Investment in nike

Finance

Investment in Nike

The CAPM approach thinks of a company's market risk as the most relevant to stockholders, thus determining how the company's new business ventures and projects affect stock price. This process can be used with organizations that don't pay dividends, as well as new businesses, by using betas for comparable companies. In other words, this method can help make comparisons with competitors from the same industry. Yet, because of the estimation of beta, CAPM uses historical data to project future trends. Finally, CAPM relies upon reducing conjecture about the markets, potential returns, and the behavior of investors.

2. Dividends discount model:

The dividends discount model makes a comparison between future forecasted dividends with the firm's current share price, and then applies the firm's growth rate to get the total figure. Many experts believe that the dividend discount model (DDM) greatly benefits investors because it makes investors think about the different market scenarios depending on how the stock is performing. Furthermore, the dividend discount model relies upon a lot of speculation in attempting to predict future dividends. This implies that the outcomes of this model are based around generalizations that are made. It is usually hard to determine the correct growth rate because a company most likely has a wide range of growth rates over a long period of time due to the fluctuating economy. It is for this reason alone that analysts do not tend to make projections based on past growth rates. Above all, there are no direct adjustments for risk with the dividends discount model.

3. Earnings Capitalization ratio:

The earnings capitalization model (ECM) is basic and easy enough to

understand by practically anyone because it determines the value of a business by looking at the current benefit of realizing cash flow in the short-term, rather than in the long-term. However, this model does not accurately estimate equity costs for firms that are expanding, so it is predominantly used only for firms that are experiencing zero growth.

What should Kimi Ford recommend regarding investment in Nike?

The Discounted Cash Flow Analysis in Exhibit 2 demonstrated that, at a discount rate of 12 percent, Nike's current share price was overvalued at $42. 09. But a sensitivity analysis disclosed that Nike was undervalued at discount rates lower than 11. 2 percent. We came up with an appropriate discount rate—Weighted Average Cost of Capital (WACC). This formula showed that the discount rate was less than 11. 2 percent at around 10. 59 percent. All of this points to the fact that Nike is a good investment because it is undervalued at the discount rate in terms of WACC.

Nevertheless, because the North Point Large Cap Fund invests predominantly in Fortune 500 companies, and with an emphasis on value investing, we gauged Nike's Economic Value Added (EVA). Our findings come up with a positive EVA for Nike at $304. 5. This ultimately means that the company adds value to its shareholders.

Because Nike's common stock is rated too low, in addition to the company having a positive EVA, it should be added to the North Point Large Cap Fund.