Residual dividends essay sample

1. Cash dividends 2012: 3, 000, 000 x (1+0. 08) =

3, 000, 000 x 1. 08 =

3, 240, 000 payout in 2012

2. Dividend Payout ratio 2012 (8%): 3, 240, 000 / 15, 000, 000 x (1+0. 08) 3, 240, 000 / 15, 000, 000 x 1. 08 3, 240, 000 / 16, 200, 000 = 20% 3. Residual dividend policy, 35% Debt, $12. 0 million invests. Residual Dividend payout ration: Net Income 2012 = 15, 000, 000 x (1+0. 08) = 16, 200, 000 Capital budget in 2012 = 12, 000, 000 x 65% = 7, 800, 000 R/E Residual Dividends 2012 = 16, 200, 000 – 7, 800, 000 = 8, 400, 000 Residual Dividends Payout ratio = 8, 400, 000 / 16, 200, 000 = 51. 85%

4. Additional capital (Debt/Equity): Equity : 12, 000, 000 x 65% = 7, 800, 000 Debt : 12, 000, 000 x 35% = 4, 200, 000 5. Pay dividend at current rate of 8% or residual dividend. To make this decision their some factor to consider, taxes rates, income interest rate and so on but the most important if you pay at residual dividend is the company can maintain them self at the high percentage. If there growth is going to continue. Is better to pay at a current dividend growth rate at 8%. This way your growth can continue and you own you are able to pay and maintain. Chapter 19-3 on Warrants

Maese Industries Inc. has warrants outstanding that permit the holders to purchase 1 share of stock per warrant at a price of $25. a. Calculate the exercise value of the firm’s warrants if the common sells at each of the following prices: (1) $20, (2) $25, (3) $30, (4) $100. (Hint: A warrant’s exercise value is the difference between the stock price and the purchase

price specified by the warrant if the warrant were to be exercised.) a.

Expiration value = Current price – Striking price

20- 25 = -5, 0

25- 25 = 0

30- 25= 5

100- 25= 75

b. Assume the firm’s stock now sells for $20 per share. The company wants to sell some 20-year, $1, 000 par value bonds with interest paid annually. Each bond will have attached 50 warrants, each exercisable into 1 share of stock at an exercise price of $25. The firm’s straight bonds yield 12%. Assume that each warrant will have a market value of $3 when the stock sells at $20. What coupon interest rate, and dollar coupon, must the company set on the bonds with warrants if they.

b. V package = 1, 000 VB + 40(3)

vb= 1, 000 -150

= 850

I(7. 4694) + 1, 000 (0. 1037)

I (7. 4694) + 103. 70

746. 30 = I (7. 4694)

I = 99. 91 or 100

Company would set a coupon interest rate of 10%, annual interest payment

I= 100