9-1 DPS CALCULATION Weston Corporation just paid a dividend of $1.00 a share (i.e., D05$1.00). The dividend is expected to grow 12% a year for the next 3 years and then at 5% a year thereafter. What is the expected dividend per share for each of the next 5 years?

9-2 CONSTANT GROWTH VALUATION Tresnan Brothers is expected to pay a $1.80 per share dividend at the end of the year (i.e., D15 $1.80). The dividend is expected to grow at a constant rate of 4% a year. The required rate of return on the stock, rs, is 10%. What is the stock’s current value per share?

9-3 CONSTANT GROWTH VALUATION Holtzman Clothiers’s stock currently sells for $38.00 a share. It just paid a dividend of $2.00 a share (i.e., D05 $2.00). The dividend is expected to grow at a constant rate of 5% a year. What stock price is expected 1 year from now? What is the required rate of return?

9-4 NONCONSTANT GROWTH VALUATION Holt Enterprises recently paid a dividend, D0, of $2.75. It expects to have nonconstant growth of 18% for 2 years followed by a constant rate of 6% thereafter. The firm’s required return is 12%.

a. How far away is the horizon date?

b. What is the firm’s horizon, or continuing, value?

c. What is the firm’s intrinsic value today, P⁄0?

9-5CORPORATE VALUATION Scampini Technologies is expected to generate $25 million in free cash flow next year, and FCF is expected to grow at a constant rate of 4% per year indefinitely. Scampini has no debt or preferred stock, and its WACC is 10%. If Scampini has 40 million shares of stock outstanding, what is the stock’s value per share?

9-6 PREFERRED STOCK VALUATION Farley Inc. has perpetual preferred stock outstanding that sells for $30 a share and pays a dividend of $2.75 at the end of each year. What is the required rate of return?

9-7 PREFERRED STOCK RATE OF RETURN What will be the nominal rate of return on a perpetual preferred stock with a $100 par value, a stated dividend of 10% of par, and a current market price of (a) $61, (b) $90, (c) $100, and (d) $138?

9-8 PREFERRED STOCK VALUATION Earley Corporation issued perpetual preferred stock with an 8% annual dividend. The stock currently yields 7%, and its par value is $100.

a.What is the stock’s value?

b.Suppose interest rates rise and pull the preferred stock’s yield up to 9%. What is its new market value?

9-9 PREFERRED STOCK RETURNS Avondale Aeronautics has perpetual preferred stock out-standing with a par value of $100. The stock pays a quarterly dividend of $1.00 and its current price is $45.

a.What is its nominal annual rate of return?

b.What is its effective annual rate of return?

9-10 VALUATION OF A DECLINING GROWTH STOCK Maxwell Mining Company’s ore reserves are being depleted, so its sales are falling. Also, because its pit is getting deeper each year, its costs are rising. As a result, the company’s earnings and dividends are declining at the constant rate of 6% per year. If D05 $3 and rs5 10%, what is the value of Maxwell Mining’s stock?

9-11 VALUATION OF A CONSTANT GROWTH STOCK A stock is expected to pay a dividend of $2.75 at the end of the year (i.e., D15 $2.75), and it should continue to grow at a constant rate of 5% a year. If its required return is 15%, what is the stock’s expected price 4 years from today?

9-12 VALUATION OF A CONSTANT GROWTH STOCK Investors require an 8% rate of return on Mather Company’s stock (i.e., rs5 8%).

a. What is its value if the previous dividend was D05 $1.25 and investors expect dividends to grow at a constant annual rate of (1) 22%, (2) 0%, (3) 3%, or (4) 5%?

b. Using data from part a, what would the Gordon (constant growth) model value be if the required rate of return was 8% and the expected growth rate was (1) 8% or (2) 12%? Are these reasonable results? Explain.

c. Is it reasonable to think that a constant growth stock could have g . rs? Why or why not?

9-13 CONSTANT GROWTH You are considering an investment in Justus Corporation’s stock, which is expected to pay a dividend of $2.25 a share at the end of the year (D15 $2.25) and has a beta of 0.9. The risk-free rate is 4.9%, and the market risk premium is 5%. Justus currently sells for $46.00 a share, and its dividend is expected to grow at some constant rate, g. Assuming the market is in equilibrium, what does the market believe will be the stock price at the end of 3 years? (That is, what is P⁄3?)

9-14 NONCONSTANT GROWTH Computech Corporation is expanding rapidly and currently needs to retain all of its earnings; hence, it does not pay dividends. However, investors expect Computech to begin paying dividends, beginning with a dividend of $0.50 coming 3 years from today. The dividend should grow rapidly—at a rate of 35% per year—during Years 4 and 5, but after Year 5, growth should be a constant 7% per year. If the required return on Computech is 13%, what is the value of the stock today?