# Stock Valuation

## Class Exercise

1. You are evaluation the following three companies as potential investments: Starbucks Corp. (SBUX), Walt Disney Co. (DIS), and Yeti Holdings Inc.(YETI). Below is the information you've gathered on all three stocks. Assume a 11% required return for all problems.

| Company | Ticker | Last Annual Dividend | Growth Rate (%) |
|---|---|---|---|
| Starbucks | SBUX | 1.72 | 9.80 |
| Walt Disney Co. | DIS | 1.76 | 4.70 |
| Yeti Holdings Inc. | YETI | 0.00 | N/A |

   (a) What is your estimate for the price of all three stocks under zero growth?

   (b) What is your estimate for the price of all three stocks under constant growth?

   (c) You realize that Starbucks (SBUX) is in a high growth period and will only grow dividends at this rate for 5 years at which point the growth rate will be 4.5% in perpetuity. What is the price of Starbucks (SBUX) under these assumptions?

   (d) Is the price of Yeti zero? What is our estimate of the price if we assume they start paying a dividend of \$0.80 in four years. The dividend grows at 20%, 15%, 10%, and 8% respectively over the next 4 years respectively before settling down to 4% forever.

2. Using the table below what would the value be for each stock using P/E and EV/Sales as multiples.

| Company | Ticker | Industry P/E | Industry EV/Sales | Forward EPS | LTM Sales (\$millions) | Net Debt (\$millions) | Shares (millions) |
|---|---|---|---|---|---|---|---|
| Starbucks | SBUX | 70.43x | 5.27x | 3.47 | 23,170.3 | 19,721.4 | 1,177.3 |
| Walt Disney | DIS | 58.16x | 6.81x | 4.86 | 60,760.0 | 41,207.0 | 1,815.3 |
| Yeti Holdings | YETI | 49.58x | 3.73x | 2.52 | 1,091.7 | (74.8) | 87.2 |

Skills tested: Intrinsic valuation using dividend growth model under i) Zero growth ii) constant growth and iii) Non-constant growth. Relative valuation using multiples