

Stock Valuation Practice Problems

From the book: Self Test Problem 8.1-8.2. Question and Problems: 1-22, 24-25 (same for both editions)

1. The Canadian House of Pancakes (CHOP) pays a constant annual dividend of \$1.25 per share. How much are you willing to pay for one share if you require a 15 percent rate of return?
2. Partial Foods just paid its annual dividend of \$1.45 a share. The firm recently announced that all future dividends will be increased by 2.8 percent annually.
 - (a) What is one share of this stock worth to you if you require a 14 percent rate of return?
 - (b) What is the price in year 7?
 - (c) What is the implied return given the price change? What is the capital gains yield? The Dividend yield?
 - (d) If the current price was \$30, what is the required return?
3. Yosemite Clothing Co. has paid a constant annual dividend of \$2.40 a share for the past 15 years. Yesterday, the firm announced the dividend will increase by 10 percent for the next three years, after which time the dividends will increase by 2 percent annually. The required return on this stock is 12 percent. What is the current value per share?

Answers to Textbook

11th Edition

- 1) \$31.20; \$35.10; \$56.19 2) 10.01% 3) 5.51%; 4.5% 4) \$49.10
5) 9.80% 6) \$3.14 7) \$52.12 8) 4.12% 9) \$81.25; \$46.43; \$32.50
10) \$10,725,039 11) \$4,290,039 12) \$42.30; \$49.35 13) \$89.31; \$74.77
14) \$36.98 15) \$56.40 16) \$59.38 17) \$51.02 18) \$60.23 19) \$2.08
20) \$79.54 21) \$4.75 22) \$138.87 24) \$74.33 25) \$88.02

12th Edition

- 1) \$34.40; \$38.70; \$61.95 2) 10.82% 3) 6.32%; 4.5% 4) \$52.48
5) 9.30% 6) \$3.72 7) \$55.13 8) 3.74% 9) \$91.25; \$52.14; \$36.50
10) \$13,975,043 11) \$5,590,043 12) \$57.24; \$66.78 13) \$69.46; \$58.15
14) \$33.22 15) \$68.48 16) \$56.60 17) \$58.70 18) \$68.64 19) \$2.14
20) \$69.69 21) \$3.98 22) \$124.58 24) \$52.86 25) \$106.11

Answer to above problems

- 1) 8.33
2) a)13.31 b) 16.15 c) 2.8%; 2.8%; 11.2% d) 7.77%
3) 30.13