TD N=4

Problem 1 :

A company is expected to have:

- A **high growth rate** of **12% per year** for the first **5 years**.

- A **stable growth rate** of **4% after year 5** (forever).

- The **most recent dividend (D_0)** was **$2 per share**.

- The **discount rate (cost of equity, r)** is **10%**.

Required :

- By using the multi stage model, find the **current stock price (P_0)**.

Problem 2 :

A company has the following financial data:

- Expected earnings growth rate (ggg) = **10%**

- Dividend payout ratio (D/ E) = **40%**

- Market risk-free rate (R) = **5%**

- The estimated **Whitbeck & Kisor P/E formula** for the industry is:

$$P/E = 4 + 1.8(g) + 1.2(D/E) - 0.7(R)$$

The company's **expected earnings per share (EPS) for next year** is **$6**.

Required :

- Find the estimated stock price using the Whitbeck & Kisor Model model.