

3.

beta 1.75
 risk free 0.07

a. market return 0.15 expected r 0.21

b. market return 0.1 expected r 0.1225

9.

1st investment project

P0 100000
 P3 133100

PV 100000

rate of return

2nd investment project

year	cash flow	discount fa	PV
		0.1	
1	0		0
2	15000		12396.69
3	25000		18782.87
3	100000		75131.48

PV 106311

rate of return

10.

P0 20
 g 0.08
 D1 0.6

a.

Gordon model for k 0.11

11.

	P0	D0	EPS1	BV0	
EO	28	1.2	1.6	17.32	
SHC	48	1.08	3	32.21	
S&P 500	1100	16	48	423.08	

a.

discount rate 0.11
 g 0.08

Value EO 43.2

Value EO >
 43.2 >

b.

next 3 years growth beyond

EO	0.12	0.08
SHC	0.13	0.07

EO	1	2	3	4 - infinity
PV	1.210810811	1.221719	1.232725	44.37811778

Value EO 48.0433731

Value EO >

48.0433731 >

13.

	1991	1981
Income Statement		
Operating revenue	56458.00	10886.00
Cost of sales	25612.00	5253.00
Excise taxes on produ	8394.00	2.58
Gross profit	22452.00	3.05
Selling, general, and a	13830.00	1741.00
Operating income	8622.00	1312.00
Interest expense	1.65	232.00
Pretax earnings	6971.00	1080.00
Provision for income ta	3044.00	420.00
Net earnings	3927.00	660.00
Earnings per share	4.24	0.66
Dividends per share	1.91	0.25
Balance Sheet		
Current assets	12594.00	3733.00
Property, plant, and ec	9946.00	3583.00
Goodwill	18624.00	634.00
Other assets	6220.00	1230.00
Total assets	47384.00	9180.00
Current liabilities	11824.00	1936.00
Long-term debt	14213.00	3499.00
Deferred taxes	1803.00	455.00
Other liabilities	7032.00	56.00
Stockholders' equity	12512.00	3234.00
Total liabilities and sto	47384.00	9180.00
Other Data		
Philip Morris:		
Common shares outst:	920.00	1003.00
Closing price common	80.25	6.13
S&P Industrials Index:		
Closing price	417.09	122.55
Earnings per share	16.29	15.36
Book value per share	161.08	109.43

growth rate	next 5 years	growth beyond
	0.20	0.07

rate of return 0.1

a.

D0	1.91	1	2	3
	PV	2.083636	2.273057851	2.479699474

Value 117.7465883

b. **P/E 18.92689**
P/E S&P 500 25.60405

relative P/E 0.739215

c. **BV per share 13.6**
P/BV 5.900735
P/BV S&P 500 2.589334

relative P/BV 2.278862

15.

Current stock price 50 30
Share outstanding 10 20

Projected earnings per 4 3.2
Projected dividend per 0.9 1.6
projected dividend gro 0.08 0.07
Stock beta 1.2 1.4
Investors required rate 0.1 0.11
Balance sheet data
Long-term debt 100 130
Stockholders equity 300 320

real GDP 0.05
S&P 500 expected 0.2
U.S. T-Bills 0.05
U.S. Treasury 0.08

a.

Value LCC 45
Value AOC 40

b.

R LCC 0.23
R AOC 0.23

0

0.063110443

PEO

28

undervaluated

P E O

28

undervaluated

4 5 6-infinity
2.705126699 2.951047 105.2540207