indefinitely. Investors require an 18 percent return on the stock for the first three years, then a 13 percent return for the next three years, and then an 11 percent return thereafter. What is the current share price?

1. Price Ratio Analysis (L04, CFA3) Given the information below for Seger Corporation, compute the expected share price at the end of 2011 using price ratio analysis.

Year 2005 2006 2007 2008 20092010

$94.50 $100.40 $99.10 $97.90 $121.50 $136.80

EPS 4.34 5.05 5.22 6.06 7.00 8.00

CFPS 7.27 8.24 8.71 10.12 11.80 13.10

SPS 52.60 58.52 57.90 60.69 71.60 78.70

1. Dividend Growth Analysis (LOI, CFA3) In the previous problem, suppose the dividends per share over the same period were $1.00, $1.08, $1.17, $1.25, $1.35, and $1.40, respectively. Compute the expected share price at the end of 2010 using the perpetual growth method. Assume the market risk premium is 7.5 percent, Treasury bills yield 4 percent, and the projected beta of the firm is .90.
2. Price Ratio Analysis for Internet Companies (L04, CFA9) Given the information below for HooYah! Corporation, compute the expected share price at the end of 2011 using price ratio analysis.

Year 2005 2006 2007 2008 2009 2010

Price $ 8.00 $ 44.50 $113.00 $193.00 $83.00 $13.50

EPS 4.00-3.30 -1.80 0.55 0.04 0.06

CFPS -9.00 —6.50 —2.80 -0.25 0.03 0.08

 SPS 5.00 13.50 18.10 20.30 23.80 21.95

24. Price Ratio Analysis for Internet Companies (1.04, CFA9) Given the information below for StartUp.Com, compute the expected share price at the end of 2011 using price ratio analysis.

Year 2007 2008 2009 2010

Price N/A 68.12 $ 95.32 $104.18 

EPS—7.55 -4.30 —3.68 CFPS -11.05 8.20 -5.18

SPS4.10 6.80 8.13

1. Price Ratio Analysis (L04, CFA3) The current price of Parador Industries stock is $74 per share. Current earnings per share are $3.40, the earnings growth rate is 6 percent, and Parador does not pay a dividend. The expected return on Parador stock is 13 percent. What one-year ahead P/E ratio is consistent with Parador's expected return and earnings growth rate?
2. Price Ratio Analysis (L04, CFA3) The current price of Parador Industries stock is $74 per share. Current sales per share are $18.75, the sales growth rate is 8 percent, and Parador does not pay a dividend. The expected return on Parador stock is 13 percent. What one-year ahead P/S ratio is consistent with Parador's expected return and sales growth rate?

Use the following information to answer Problems 27—31.

Abbott Laboratories (ABT) engages in the discovery, development, manufacture, and sale of a line of health care and pharmaceutical products. Below you will find selected information from Value Line. Use the Value Line estimated 2009 figures as the actual year-end figures for the company. The beta reported was .60 and the risk-free rate was 3.13 percent. Assume a market risk premium of 7 percent.

Chapter 6 Common Stock Valuation 219

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2005 | | 2006 |  | 2007 | | 2008 | | 2009 | 2010 | e VALUE LINE PUB., INC | |
| 14.51  3.42  250  1.10 | | 14.62  3.51  252  1.18 |  | 1B.72  4.05  2.84  1.30 | | 19.40  4.32  3.03  1.44 | | 19.70  4.95  3.65  1.60 | 21.45  5.50  415  116 | Sales per sh  "Cash Flow" per sh  Earnings per sh A  Div'ds Decl'd per sh BE | |
| .78  9.37 | | 9.14 |  | 11.47 | | -85  11.48 | | 1.10  12.95 | 1.15  14.90 | Cap' Spending per sh Book Value per sh c | |
|  |  |  |  |  |  |  |  |  |  | ommon | S utst g D |
| 18.1  .96 | | 17.9 .97 |  | 1.02  2.4% | | 182  1.12 | | Bold fig Vale esti | res are  Line tes | Avg Ann'l P/E Ratio Relative PIE Ratio  Avg Ann'l Div'd Yield | |
| 22338  27.6% | | 2247B  28.2% |  | 25914  2B.2% | | 29526  25.5% | | 30450  29.20/0 | 33000  29, | Sales ($mill)  O eratin Mar in | |
| 1358.9  3908.5 | | 1558.8  3841 q |  | 1854.9  4429.3 | | 1836.8  47342 | | 2000  5640 | 2075  6400 | Depreciation (Smill) Net Profit ($mill) | |
| 24.3%  17.5% | | 23.5% 111% |  | 19.3%  17.1% | | 19.2%  16.0% | | 20.00/0  18.5% | 20.0%  19.4% | Income Tax Rate  Net Profit Mar in | |
| 3970.5  4571.5  14415 | | dðB9.3 7009.7  14054 |  | 409.4  9487.8  17779 | | 5450.7  8713.3  17480 | | 6500  10000  20000 | 6515  8000  22950 | Working Cap" (Smilll  Long.Term Debt ($mill) Shr. Equity (Smill} | |
| 21.0%  27.1% | | 188%  27.3% |  | 17.1%  24.9% | | IB-Û%  27.1% | | 19.0%  28.0% | 21.0% | Return on Total Cap'l Return on Shr. E ui | |
| 15.4% | | 14.7% 46 % |  | 13.9% 44% | |  | | 16.00/0  44% | 16.0% | Retained to Com Eq  All Prof | |

The high and low share price each year were:

2005 2006 2007 2008  2009

High $50.00 $49.90 $59.50  $61.10  $57.40

Low 37.50 39.20  48.8045.80 41.30

1. Constant Perpetual Growth Model (LOI, CFA7) What is the sustainable growth rate and required return for Abbott Laboratories? Using these values, calculate the 2010 share price of Abbott Laboratories Industries stock according to the constant dividend growth model.
2. Price Ratios (L04, CFA5) Using the P/E, P/CF, and PIS ratios, estimate the 2010 share price for Abbott Laboratories. Use the average stock price each year to calculate the price ratios.
3. Residual Income Model (1.03, CFAIO) Assume the sustainable growth rate and required return you calculated in Problem 27 are valid. Use the clean surplus relationship to calculate the share price for Abbott Laboratories with the residual income model.
4. Clean Surplus Dividend (1.03, CFAIO) Use the information from the previous problem and calculate the stock price with the clean surplus dividend. Do you get the same stock price as in the previous problem? Why or why not?
5. Stock Valuation (LOI, L03, L04) Given your answers in the previous questions, do you feel Abbott Laboratories is overvalued or undervalued at its current price of around $50? At what price do you feel the stock should sell?
6. Residual Income Model and Nonconstant Growth (1403, CFAIO) When a stock is going through a period of nonconstant growth for T periods, followed by constant growth forever, the residual income model can be modified as follows:



EPS

+

B

220 Part 2 Stock Markets