Corporate Valuation (Finance) 2010 finance Lib.

20110108

CV 03

Attempt all questions. All carry equal marks.Max marks 60.

Roll No. Time 3hrs Total No. of Qs.: 04

1.Explain the capital asset pricing model.

2.Explain the single period equity valuation model.
Explain the formula for the multi period equity valuation model
Explain book value and Liquidation value.

3.X has a current stock price of Rs 50. and current dividend of Rs1.5.The dividend is expected to grow at 5% annually. X`s beta is 0.85. The risk free interest rate is 4.5% and the market risk premium is 6%.

a.What is the next year`s projected dividend?
b.What is the required rate of return based on the CAPM?
c.Using the Gordon growth model what is the value of X?
d.Assuming Gordon growth model is valid what dividend growth rate would result in model value of X equal to its market price?

4.a.What is free cashflow to the firm and free cash flow to equity.
b.When is the free cash flow as return used by analyst.
c.Explain the formula for estimating the firm value by the FCFF valuation approach.
d.What is the value of the firm if FCFF is growing at a constant rate.
e.What is the Equity value if FCFE is growing at a constant rate.