MBA711 - Practice - Valuing Common Stock

With your MBA training you have been asked to evaluate some corporate bonds and common stock, and to assess risk. To organize this analysis you obtained the following information on various companies. Use this information to answer the following questions.

1. Intel Corporation currently pays a dividend of $2.50 per share, \( D_0 = 2.50 \). The required rate of return for investors on Intel stock is 13%.

   a. An analyst by the name of Chace Stanback estimates that Intel will pay out all their earnings as dividends in the future. Intel Corporation has a long-un average return on equity (ROE) of 14% and a debt ratio of 50%. Based on future dividends and Stanback’s assumption, what would you estimate as the fair value of a share of Intel common stock?

   b. An analyst by the name of Derrick Jasper estimates that Intel’s dividend will grow at a constant rate of 5% forever. Based on future dividends and Jasper’s assumption, what would you estimate as the fair value of a share of Intel common stock?

   c. An analyst by the name of Tre Willis estimates that Intel’s dividend will grow at a rate of 40% over the next two years and then the dividend will grow at a constant rate of 3% thereafter. Based on future dividends and Willis’ assumptions, what would you estimate as the fair value of a share of Intel common stock?

2. Suppose the risk-free rate is 4%, the expected return on the market is 11%, and Wynn Resort, Inc. Stock has a beta of 1.8. What is the required rate of return of Wynn stock?