BUS-123 Spring 2012 Common Stock Valuation – Bonus Name: ________________
Instr: F. Paiano Due: Tue/Thurs March 29th; Online March 31st (10 points) Chap 6 **Bonus** Assignment

Take a trip to a library that has *The Value Line*. (Sadly, Southwestern's library no longer has it.) Consult *The Value Line* and choose one or two stocks from the list below. Perform the following valuation model calculations:

1. Price-to-Earnings Ratio Model to predict next year's (Spring-2013) stock price.
2. Price-to-Cash Flow Ratio Model to predict next year's (Spring-2013) stock price.
3. Price-to-Sales Ratio Model to predict next year's (Spring-2013) stock price.
4. Constant Perpetual Dividend Growth Discount Model to predict the current present values at:
    a. 12% required rate of return
    b. 10% required rate of return
    c. 8% required rate of return
5. Dividends-and-Earnings Model to predict the current present values at:
    a. 10% required rate of return
    b. 8% required rate of return

Reminder: The models will not work if the growth rate is greater than the required rate of return. You may need to try higher required rates of return if the growth rate is greater than the required rate of rate.

Notes: You may need to compute the 5-year averages for the earnings per share, cash flow per share, and sales per share if *The Value Line* does not have them. The growth rate of each is computed by the following formula:
(Projected 2012 value - Actual 2011 value) / (Actual 2011 value) (*and so on for each previous year*)

Use the actual late 2011 dividends per share and the projected 2012 dividends per share for the Constant Perpetual Dividend Growth Discount Model. As with the price ratios growth rates, the dividend growth rate is computed by the following formula:
(Next Year's Dividends - Last Year's Dividends) / (Last Year's Dividends)

Remember that sometimes, the model will produce aberrant results (such as division by zero or negative values) depending upon the required rate of return. If this happens, you can adjust the required rate of return up or down until you get reasonable values. Or you could simply display "N/A" as the model's result.

Of course, you could simply use The Value Line's projected annual rates, but that is not as much fun, right?

For the Dividends-and-Earnings Model, use the 2012 *Value Line* estimates of the dividends and extrapolate the estimated dividends until 2014. (Use the dividend growth rate you calculated for the Constant Perpetual Dividend Growth Discount Model to calculate estimates of the 2012 through 2014 dividends.) Use an appropriate value for the target price of late 2014. (You can use your own prediction or look at *The Value Line* target price range and choose a price somewhere in the middle. How's that for precision?)

Eligible Stocks:
Abbott Laboratories, AFLAC, Air Products and Chemicals, Anheuser-Busch InBev, Aon, AT&T, Automatic Data Processing, Baker Hughes, Ball Corporation, Bank of America, Bank of New York, Best Buy, BlackRock, The Blackstrone Group, Boeing, Bristol-Myers Squibb, Cardinal Health, Caterpillar, Chevron, Citigroup, Clorox, Colgate-Palmolive, ConocoPhillips, CSX, CVS/Caremark, Corning, Deere, Dupont, Emerson Electric, ExxonMobil, FedEx, Fifth Third Bancorp, Gannett, General Dynamics, General Mills, Halliburton, Harley-Davidson, H. J. Heinz, Honeywell, IBM, Illinois Tool Works, Ingersoll-Rand, Intel, Johnson Controls, Kellogg's, Kimberly-Clark, Eli Lilly, Lockheed-Martin, Marathon Oil, Marsh & McLennan, McDonald's, Medtronic, Merck, Microsoft, Newmont Mining, Norfolk Southern, Northrop Grumman, PepsiCo, Pfizer, Pitney-Bowes, PPG Industries, Raytheon, Schlumberger, Southern Co, State Street Corp, Sysco, Target, Texas Instruments, 3M, Travelers, Union Pacific, United Technologies, UPS, US Bancorp, Verizon, Wal-Mart, Wells Fargo, Xcel Energy, Yum Brands

P.S. Flip through *The Value Line* index and gawk at the sheer number of publicly traded companies. Could any one person ever become capable and qualified to give advice on more than a small percentage of the companies available for investment? Can you now understand why mutual funds have entire teams of analysts and portfolio managers? *The Value Line* index also contains market commentary. What do they say about the current market conditions?