

## MGT201 Assignment 1 Solution 2022

Company	Calculations	Calculations	Over / Under
Company A	No Growth Model	$= \text{DIV}_0 / r_{CE}$ $= 3 / 15\%$ $= 20$	Over
Company A	Two-Stage Growth Model	$D_1 = D_0 \times (1+R)^1$ $= 8.5 \times (1.10)^1$ $= 9.35$ $D_2 = D_0 \times (1+R)^2$ $= 8.5 \times (1.10)^2$ $= 10.29$ $D_3 = D_0 \times (1+R)^3$ $= 8.5 \times (1.10)^3$ $= 11.31$ $P_3 = D_3 \times (1 + g_2) / (R - g_2)$ $= 11.31 \times (1 + 6\%) / (16\% - 6\%)$ $= 120$ $P_0 = [D_1 / (1+R)^1] + [D_2 / (1+R)^2] + [D_3 / (1+R)^3] + [D_4 / (1+R)^4] + [P_4 / (1+R)^4]$ $= 9.35 / (1.16)^1 + 10.29 / (1.16)^2 + 11.31 / (1.16)^3 + 120 / (1.16)^3$ $= 100$	Over
Company A	Constant Growth Model	$= \text{DIV}_1 / r_{CE} - g$ $= 2.2 / (18\% - 10\%)$ $= 27.5$	Under