

III. Value Enhancement, Estimating Growth

Mini Case I: Economic Value Added

A company invested Bt200mn in total assets, which are 50% financed by interest-bearing debts and 50% shareholders' equity. The debts have an average interest cost of 5.00% and shareholders' required rate of return is 10%. Total number of paid-up shares capital is 10mn shares. The invested assets are under BOI privilege of zero income tax.

- 1) Calculate weighted average cost of capital (WACC).
- 2) The amount of debt interest-bearing debt financing is Bt.....mn.
- 3) The amount of equity financing is Bt.....mn. Par value per share is Bt...../share. Book value per share is Bt...../share.
- 4) What is the amount of interest payment on the company's interest-bearing debts? Bt.....mn
- 5) What is the minimum net profit that meets shareholders' required rate of return? Bt.....mn
- 6) **Scenario 1:** This company is a no growth company and pays 100% of its net profit as dividend to shareholders. The company is expected to generate a net profit of **Bt10mn** every year.

A new group of shareholders want to buy all stakes in this company. If their required rate of return is 10%, what is the price that the new group of shareholders be willing to pay? Bt.....mn

Calculate return on invested capital (ROIC) in Year 1.

Calculate return on equity (ROE) in Year 1.

Calculate P/BV ratio at the beginning of Year 1.times

Compare ROIC with WACC and ROE with shareholders' required rate of return (k_e).

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- 7) **Scenario 2:** The company generates a net profit of Bt10mn in the first year and decide to pay 70% of the net profit as dividend to shareholders (70% dividend payout ratio) and reinvest 30% of the net profit back in the company to finance growth in the second year (30% retention ratio). The 70% dividend payout ratio will be maintained going forward.

The company's shareholders' equity at the beginning of Year 2 is Bt.....mn.

Book value per share at the beginning of Year 2 is Bt...../share.

What is the amount of interest payment on the company's interest-bearing debts in the second year? Bt.....mn

What is the minimum net profit in the second year that meets shareholders' required rate of return? Bt.....mn. What is the rate of growth in the net profit over the first year?%

The company is expected to generate a net profit of Bt10.3mn in the second year and the net profit is expected to grow by 3% per year going forward. A new group of shareholders want to buy all stakes in this company. If their required rate of return is 10%, what is the price that the new group of shareholders be willing to pay? Bt.....mn

Calculate weighted average cost of capital (WACC) in Year 2.

Calculate return on invested capital (ROIC) in Year 2.

Calculate return on equity (ROE) in Year 2.

Calculate P/BV ratio at the beginning of Year 2.times

Compare ROIC with WACC and ROE with shareholders' required rate of return (k_e).

- 8) **Scenario 3:** This company is a no growth company and pays 100% of its net profit as dividend to shareholders. The company is expected to generate a net profit of **Bt15mn** every year.

A new group of shareholders want to buy all stakes in this company. If their required rate of return is 10%, what is the price that the new group of shareholders be willing to pay? Bt.....mn

Calculate weighted average cost of capital (WACC) in Year 1.

Calculate return on invested capital (ROIC) in Year 1.

Calculate return on equity (ROE) in Year 1.

Calculate P/BV ratio at the beginning of Year 1.times

Compare ROIC with WACC and ROE with shareholders' required rate of return (k_e).

- 9) From the above analysis, what is your conclusion regarding the relationship between ROIC and WACC, ROE and shareholders' required rate of return that impact P/BV?