Chanokporn Sophonkiattikun
#5704640233

Individual Assignment

1.Explain the relationship between earnings and a stock's market value?

Earnings

Earnings are the amount of profit that a company generates during a specific period, which is usually defined as a quarter (three calendar months) or a year. Earnings are important and studied widely because it indicates the company's performance

Stock's market value

Market value is the value of a company according to the stock market. It is commonly used to refer to the market capitalization of a publicly-traded company, and is obtained by multiplying the number of its outstanding shares by the current share price.

The relationship between earnings and stock market value can be complicated since high profits don't necessarily mean a high stock price, and big losses don't always lead to a low stock price. However, there are two major factors that influence stock price which are current earnings and promise of future earnings

1. Direct relationship - Price Earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (current market price for a stock/ earning per share) it determines how much investor are willing to pay for the stock relative to the company's earning.

2. Indirect relationship - Price sales ratio (P/S ratio) is a valuation ratio that compares a company's stock price to its revenues. It can be calculated either by dividing the company's market capitalization by its total sales over a 12-month period, or on a per-share basis by dividing the stock price by sales per share for a 12-month period. The ratio is important as looking only at a P/E ratio is not enough because we need to look at promise of future earning as well and it comes from high revenue growth curves with a scalable business model that produces higher earnings in the future. So any company with a proven high revenue growth curve and a scalable business model can be expected to have strong future earnings. Therefore, paying more on a price/earnings ratio basis is worth it.

2.Which type of stock could help you obtain your investment and financial goals? Justify your choice?

I decide to invest in PTT stock because the company is Thailand's biggest downstream petrochemicals refiner and a subsidiary of local oil and gas giant PTT Public (PTT.TH). The company specializes in olefins and polymers which are used to make plastic. The stock has returned about 13.5% so far this year. PTT Global Chemical stands to benefit from any further gains in the oil price, as commodity chemical prices tend to move in lockstep with crude. Earnings per share could grow by about 20% in its 2017 financial year.

Analysts at Nomura say the current valuation looks "undemanding" at just over one times the stock's book value. That's about 20% or so cheaper than PTT Global Chemical's average PB ratio over the last few years. The stock yields a 4% dividend based on its recent trading price. Brokers think the share price could inflate by 20% or more

3. What sources of information would you use to evaluate a stock issue?

- Understand what the company do by research and understand their business, their potential growth, their competitors, the person who owns the company etc.
- The company's performance by looking at financial indicators such as ratio analysis, activity analysis
- Some examples of important ratios are P/E ratio, Dividend yield, EBIT,

4. What is the difference between the primary market and the secondary market?

The primary market is where securities are created. It's in this market that firms sell (float) new stocks and bonds to the public for the first time. For our purposes, you can think of the primary market as the market where an initial public offering (IPO) takes place. Simply put, an IPO occurs when a private company sells stocks to the public for the first time. The primary market is also the market where governments or public sector institutions raise money through bond offerings.

The important thing to understand about the primary market is that securities are purchased directly from an issuing company.

The secondary market commonly referred to as the "stock market." This includes the New York Stock Exchange (NYSE), Nasdaq and all major exchanges around the world. The defining characteristic of the secondary market is that investors trade among themselves. That is, in the secondary market, investors trade previously issued securities without the issuing company's' involvement. For example, if you go to buy Microsoft stock, you are dealing only with another investor who owns shares in Microsoft. Microsoft is not directly involved with the transaction.

5. Calculating total return, Tammy Jackson purchased 100 shares of all-American Manufacturing Company stock at $31.50 a share. One year later, she sold the stock for $38 a share. She paid her broker a $28 commission when she purchased the stock and a $42 commission when she sold it. During the 12 months that she owned the stock, she received $160 in dividends. Calculate Ms.Jackson's total return on this investment.

- Current return = $160 in dividends
- Purchased price = (purchased stock price x no. of share)+commissions
  = (31.5 x 100) + 28
  = $3,178
- Selling price = (sold price x no. of share)-commissions
  = (38 x 100) – 42
  = $3758
- Capital gain = $3758 - $3,178= $580
- Total return = $160+580= $740