ADVANCED FIRM VALUATION, 10.8.2015

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Summer Exam

1. Show how to decompose ROIC. [6p.]

2. Show how P/E-ratio is related to Return on Equity ratio (ROE) are Price/Book-ratio [6p].

3. Schiller & Co. Ltd. has the following data at the end of December 2013:

Book value of equity:		4.00 per share
Expected earnings for the next four years:	(31 Dec 2014)	2.00 per share
	(31 Dec 2015)	2.50 per share
	(30 Dec 2016)	2.80 per share
	(30 Dec 2017)	3.20 per share

Schiller & Co. Ltd is not expected to pay any dividends during this period. Expected cost of equity capital is 10 percent. The perpetual growth in abnormal earnings after 2017 is equal to the growth in residual income between 2016 and 2017.

a) Using the abnormal earnings model, calculate the intrinsic value of a share of Schiller & Co. Ltd on 31 December 2013. [6p]
b) Calculate the expected ROE (return on equity) in year ended 31 December 2017 by using the average equity of the beginning and ending balance sheet. [6p]