

Week 3 Model Assignment

Section 3: Dividend Analysis and Preliminary Valuation

First and Last Name

The University of Arizona Global Campus

BUS 401: Principles of Finance

Instructor Name

Due Date

This model has many helpful tips in it to illustrate best practices in APA, tables, and writing. In keeping with UAGC's Academic Integrity policies, be sure to construct your own assignment with originality in writing and content. If you need help writing your assignment **in your own words**, reach out to the Writing Center. As always, your instructor is available to answer questions about this assignment.

Consider using [level headings](#) to help organize your paper into the required parts.

Section 3: Dividend Analysis and Preliminary Valuation

Part 1 Dividend Analysis

Over the past eleven years, PG has paid dividends quarterly. Table 6 shows PG's annual dividends over the past eleven years and the annual growth rate.

Be sure to introduce and/or explain your tables, if you include them.

Table 6

PG's Annual Dividends

PG	Dividend Per Share	Annual Growth Rate
Oct-20	\$ 3.12	7.55%
Oct-19	\$ 2.90	3.94%
Oct-18	\$ 2.79	4.10%
Oct-17	\$ 2.68	0.75%
Oct-16	\$ 2.66	2.70%
Oct-15	\$ 2.59	5.71%
Oct-14	\$ 2.45	6.99%
Oct-13	\$ 2.29	7.01%
Oct-12	\$ 2.14	8.63%
Oct-11	\$ 1.97	9.44%
Oct-10	\$ 1.80	

Because your weekly assignments will become a part of your Final Project, continue to number your tables based on your previous assignments. So, if there are five tables in your previous assignments, the first table in this paper should be Table 6.

Note. Adapted from Business Insider, n.d.

PG's average growth rate over the last 10 years is 5.68%. PG's average growth rate over the last five and three years is 3.81% and 5.20%, respectively. PG's annual dividends have growth every year for the 11 years, ranging from a low growth of 0.75% (in 2017) to a high of 9.44% (in 2011).

Calculate the average dividend growth rate over the following periods: The most recent 10 years, 5 years, and 3 years.

Be sure to summarize the trend in the dividend growth rates.

and then increased to 4.10% in 2018. In 2019, the dividend growth rate declined slightly to 3.94% from 2018's 4.10%. Finally, in 2020, the dividend growth rate increased to 7.55%.

Upon review of the dividend growth rate data, I have selected 4.0% as the dividend growth rate. This is based on the 10-year average, the three-year average from 2018 and 2019. This growth rate estimate is supported by PG's financials including its high interest coverage ratio of 50.66 and the growth in sales over the most recent three-year period.

Determine **one** estimate of the future dividend growth rate for this company.

Part 2 Preliminary Valuation

The constant growth formula can be used to calculate a stock price for PG. The constant growth formula uses the most recent dividend (D), a dividend growth rate (g), and a discount rate (r) to calculate a stock price. This formula is as follows:

$$\text{Price} = \frac{D (1 + g)}{(r - g)}$$

Consider using the Equation tool in Microsoft Word to write up your formulas and calculations. For help with this, see this guide: [Write an Equation or Formula](#).

For the first calculation, PG's dividend growth rate is 4.0% (g), the dividend growth rate. The most recent annual dividend is \$3.12 per share (D). As PG is a large capitalization company, the discount rate will be 10.0% (r). Using these inputs, the calculated stock price for PG is \$54.08 per share. The calculations are shown here:

Be sure to introduce and explain your calculations.

$$\text{Price} = \frac{\$3.12 (1 + 0.04)}{(0.10 - 0.04)}$$

Show your calculations of the constant growth formula step by step.

$$\text{Price} = \frac{\$3.12 (1.04)}{(0.06)}$$

$$\text{Price} = \frac{\$3.2448}{0.06}$$

$$\text{Price} = \$54.08$$

Compare the stock price you calculated in Part 3 to the current stock price per share of the company.

The most recent stock price for PG is \$143.30, as of November 16, 2017 (Yahoo! Finance, n.d.). The value calculation using the constant growth formula is below the current market price for PG. This indicates that the market price for PG is over-valued.

Based on this analysis, the concluded value for PG is \$54.08 per share. This conclusion uses 4.0% as the dividend growth rate, which based on the company's strong interest coverage ratio, and increases in revenues and net income over the past five years, is well below the PG current market price of \$143.30, which suggests the stock is currently overvalued on the market.

Determine your concluded stock price and justify this conclusion.

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References

Markets Insider. (n.d.). *Procter & Gamble Co.: Stock, PG*. Business Insider. Retrieved on December 3, 2020, from <https://markets.businessinsider.com/stocks/pg-stock>

Yahoo! Finance. (n.d.). *The Procter & Gamble Company (PG)*. Retrieved on December 3, 2020, from <https://finance.yahoo.com/quote/PG/>

Be sure to include a [references list](#) that cites where you got your information from.

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