FINANCIAL ANALYSIS
PARTIAL EXAM

2009 – 2010

(Problems 1 and 4 are worth 6 points each and problems 2 and 3 are worth 4 points each)

1. XYZ Corp. has net income of $90 000 in 1996. Here are some of the financial ratios from the annual report.

Profit Margin	12%
Return on Investment (Total Assets)	20%
Debt to Asset Ratio	55%

Using these ratios, calculate the following for XYZ Corp.:

a. Sales
b. Total assets
c. Total asset turnover
d. Total debt
e. Stockholders' equity
f. Return on equity

2. You are called in as a Financial Analyst to appraise the bonds of the Nefertiti Corporation. The $1000 par value bonds have a quoted annual interest rate of 14%, which is paid semiannually. The yield to maturity on the bonds is 12% annual interest. There are 15 years remaining to maturity. Calculate the current price of the bond based on semiannual analysis.

3. Phoenix Marketing is expected to pay $2.40 per share in dividends at the end of the next 12 months. The growth rate in dividends is expected to be constant at 9% per year. If the stock is selling for $51.30 per share, what is the required rate of return?

4. The Zuma refinery Company is trying to determine its weighted average cost of capital for use in making a number of investment decisions. The firm's $1000 par value bonds were issued 6 years ago and have 14 years left until maturity. They carried an 8% coupon rate, and are currently selling for $962.50.

The firm's preferred stock carries a $4.60 dividend and is currently selling at $42.50 per share. Zuma's investment banker has stated that issue costs for new preferred stocks will be $0.50 per share.

The firm has significant retained earnings, but will also need new common stock to finance the projects it is now considering. Zuma Refinery common stock is expected to pay $2.50 per share dividend next year, and is expected to maintain an 8% growth rate for the foreseeable future. The stock is currently priced at $50 per share, but new common stock will have flotation costs of $0.60 per share.

a. Calculate the costs of the various components of Zuma Refinery's capital (Debt, Retained earnings, new common stock, and preferred stock). The firm's tax rate is 34%. (Hint: for the cost of debt use the approximate yield formula).

b. Calculate the weighted average cost of capital assuming the financial structure consists of 30% of debt, 40% retained earnings, 20% new common stock and 10% preferred stock.