Bond and Stock Valuation

1. As financial manager of Argus, you are planning to issue $40 million in bonds. The coupon rate is 9% to be paid annually. The entire issue will mature in 10 years. Current interest rates are:

Rating: Aaa Aa A Baa Ba B Caa

Rate: 8.8% 9% 9.3% 9.6% 10% 10.5% 11.2%

1. What rating must the bonds have to sell at face value?
2. If the bonds are rate Ba, what price would they sell for in the market?
3. Given your answer from b, what would the total face value of the bond issue be in order to generate $40 million.
4. The rate of interest is 8%. How much should you pay for a bond with a face value of $1,000, a coupon rate of 6%, and 20 years to maturity? What would happen to the price if interest rates rose to 7% at the end of 5 years?
5. A share of preferred stock issued by Joe’s Septic Systems has a par value of $100 and pays an annual dividend of $10. If the sell for $105 per share, what is the required rate of return?
6. The Denver Saddle Burr Company is expected to pay a $2.00 dividend per share at the end of the year. The current stock price is $40 per share and the dividend is expected to grow at 6% per year.
7. What is the required rate of return given this information?
8. Suppose your analysis of the company revealed that the dividends would actually grow at 8% per year. What value would you place on the stock?