

Financial Leverage

The company TUCSA S.L. is wondering how it can maximize the value of the company through the financial leverage of the company. In order to do so, has end up with two possible situations:

The first situation is made up with no debt, a Cost of Equity of 7%. As for the second situation is compose by 200 Million of Debt, a Cost of Debt of 5% and because of the increase in risk the Cost of Equity has risen to 8%.

If the company is planning on an EBIT of 50 Million, a rate of growth of 3% and a rate over taxes of 30 %, which situation leaves the company with the highest value. It pays a payout of 80%

Dividend Policy

Exercise 1

Long Term Debt	400.000
Common Stock (2€)	100.000
Capital Surplus	500.000
Retained Earnings	380.000
Net Income	90.000
Price of the Share	12€
Number of Shares	50.000 (100.000/2 – Common stock)

Calculate the rate of Payout if the company applies a 6% of Dividend Yield and which will be the price of the share after the Ex-dividend day.

Exercise 2

What would be the Dividend Per Share if the Payout rate was of 60%?

Exercise 3

If the company had planned a future investment of 80.000€ which will be financed keeping the Financial Structure of the company as it looks right now, how much will the Dividend Per Share be if all the Net Income after the finance of the investment was given to the shareholders?