
Question 5: Corporate Finance**(28 points)**

a)

Estimate of free cash flows:

Tax rate = 30% as computed from the income statement

Cash flows (in Mio. EUR)	2006	2007	2008
EBIT	103	135	174
-taxes	-30.9	-40.5	-52.2
+ deprec.	20	25	30
-capex	-29	-23	-39
change in NWC	-12	-38	-22
FCFF	51.1	58.5	90.8

b)

Cost of capital:

Since Seox is an all-equity firm, the cost of capital is the cost of equity capital.

In order to apply the CAPM, it is necessary to de-lever the equity beta of peer companies.

Given that debt is risk free, its beta = 0, we can apply:

$$\beta_s = \beta_u \cdot \left(1 + (1 - t_c) \cdot \frac{D}{E} \right)$$

$$1.1 = \beta_u \cdot \left(1 + (1 - 0.3) \cdot \frac{1}{4} \right) \text{ and } \beta_u = 0.936$$

Hence, the cost of equity is:

Cost of equity capital

= risk free rate + β · market risk premium

= 3.5% + 0.936 · 4% = 7.24%

c)

i) Value of the firm after the debt issue (in Mio. EUR):

= $V_u + PV(TS) + \text{riskless assets}$

= 1824 + 0.30 · 364.8 + 364.8 = 2298.24

where

PV (TS) is the present value of tax shield as we are in Modigliani-Miller with taxes.

Debt (1/5 of the value of firm) = 1/5 · 1824 = 364.80

ii) Value of equity:

Equity = 2298.24 – 364.8 = 1933.44

iii) Price per Share:

Price per share = 1933.44/100 = 19.33