1. Constant growth stocks

You are given the following information about three stocks:

— Chapman Tech is expected to pay a $1.20 dividend at the end of the year. The required return on Chapman Tech's stock is 11% and its dividend is expected to grow at a constant rate of 7% per year.
— Rust Petroleum is expected to pay a $1.50 dividend at the end of the year. Rust Petroleum's dividend yield and capital gains yield both equal 6%.
— Schubert Fabric's current stock price is $15 per share, its required return is 13%, and its dividend yield is 8%.

Use the constant growth valuation formula to evaluate each stock's next expected dividend, current price, required return, expected dividend growth rate, and dividend yield. Assume the market is in equilibrium. In the table below, indicate which stock has the highest value for each of these metrics.

Which stock has the highest ...	Chapman Tech	Rust Petroleum	Schubert Fabric
Expected dividend (D_1)	○	○	○
Current stock price (P_0)	○	○	○
Required return (r_s)	○	○	○
Expected dividend growth rate	○	○	○
Dividend yield (DY)	○	○	○
Capital gains yield	○	○	○

Graded

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