**About AirJet Best Parts, Inc.**

AirJet Best Parts, Inc. is a company dedicated to the design and manufacturing of aviation and airplane technologies and parts. The company has commercial and military clients worldwide.

**Task 1: Assessing loan options for AirJet Best Parts, Inc.**

The company needs to finance $8,000,000 for a new factory in Mexico. The funds will be obtained through a commercial loan and by issuing corporate bonds. Here is some of the information regarding the APRs offered by two well-known commercial banks.

|  |  |  |
| --- | --- | --- |
| Bank | APR | Number of Times Compounded  |
| National First  | Prime Rate + 6.75% | Semiannually  |
| Regions Best  | 13.17 | Monthly  |

1. Assuming that AirJet Parts, Inc. is considering loans from National First and Regions Best, what are the EARs for these two banks? Hint for National Bank: Go to the St. Louis Federal Reserve Board’s website (<http://research.stlouisfed.org/fred2/>). Select “Interest Rates” and then “Prime Bank Loan Rate”. Use the latest MPRIME. Show your calculations.
2. Based on your calculations above, which of the two banks would you recommend and why? Explain your rationale.
3. AirJet Best Parts, Inc. has decided to take a $6,950,000 loan being offered by Regions Best at 8.6% APR for 5 years. What is the monthly payment amount on this loan? Do you agree with this decision? Explain your rationale.

**Task 2: Evaluating Competitor’s Stock**

AirJet Best Parts, Inc. is concerned regarding recent changes in its stock prices for the company and would like to determine the stock prices for key competitors. Key competitors include Raytheon, Boeing, Lockheed Martin, and the Northrop Grumman Corporation.

1. Using the dividend growth model and assuming a dividend growth rate of 5%, what is the rate of return for one of three key competitors? Use Yahoo Finance to obtain the latest dividend amount and price for one selected company.
2. Using the rate of return above, what should be the current share price of AirJet Best Parts, Inc. if the company maintains a constant 1% growth rate in dividends and the most recent dividend per share paid on the stock was $1.50? Show your calculation.
3. Assume AirJet Best Parts has also a preferred stock issue. The most recent dividend per share paid on the stock was also $1.50, the same as the common stock. Which one would you think has a higher price, the preferred stock or the current stock? Explain your rationale.
4. What would happen with the price you computed above if AirJet Best Parts, Inc. announces that dividends at the end of the year will increase? What if the required rate of return increases? What changes in dividends will affect the stock price and how?

**Task 3: Bond Evaluation**

AirJet Best Parts, Inc. would like to issue 20-year bonds to obtain remaining funds for the new Mexico plant. The company currently has 7.5% semiannual coupon bonds in the market that sell for $1,062 and mature in 20 years.

1. What coupon rate should AirJet Best Parts set on its new bonds to sell them at par value?
2. What is the difference between the coupon rate and the YTM of bonds?
3. What factors will contribute to the riskiness of these bonds? Explain in detail your rationale.
4. What type of positive and negative covenants may AirJet Best Parts, Inc. use in future bond issues?