

WACC Homework

**Q3)** Assume that Alnser company has a project under consideration requires an outlay –initial investment- 1000,000 QR will produce incremental after tax cash flow 350,000 annually for five years.

Alnser Company decide to get the money for the initial investment as follow:

Common Stock	400,000
Preferred Stock	300,000
Bond	300,000
	=====
	1000,000

If you know that

- 1) The market risk premium is 8.5% , the risk free rate is 7% and Alnser Company has equal to 1.35
- 2) Alnser Company has a preferred stock which pays an annual dividend of 3.25 QR per share and currently has a market price 25 QR per share.
- 3) Alnser Company issued a 25 year bond with a 10% coupon and 1000 face value, the market value for the bond is 915 QR. (Assume the tax rate is 34%).

Based on data given above answer the following question.

- 1) Using the SML –CAPM- to compute the firm's cost of Equity.
- 2) Compute the cost of Preferred stock.
- 3) Compute the cost of Debt after tax.
- 4) Compute the weighted Average Cost of Capital (WACC).
- 5) Compute the NPV.