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**College of Administrative and Financial Sciences**

**Assignment 3**

**Principles of Finance (FIN101)**

**Deadline: (8/04/2021 @ 23:59)**

|  |  |
| --- | --- |
| Course Name: **Principles of Finance** | Student’s Name: |
| Course Code: **FIN101** | Student’s ID Number: |
| Semester: 2nd | CRN: |
| Academic Year: 1441/1442 H, 2nd Term | |

**For Instructor’s Use only**

|  |  |
| --- | --- |
| Instructor’s Name: | |
| Students’ Grade: /5 | Level of Marks: High/Middle/Low |

**Instructions – PLEASE READ THEM CAREFULLY**

* This assignment is an individual assignment.
* The Assignment must be submitted only in **WORD format** via the allocated folder on Blackboard.
* Assignments submitted through email will not be accepted.
* Students are advised to make their work transparent and well presented. This also includes filling in your information on the cover page.
* Students must mention question number clearly in their answers.
* Late submitted assignments will NOT be entertained.
* Avoid plagiarism. The work should be in your own words; copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).

**Submissions without this cover page will NOT be accepted**.

**Assignment Question(s): (Marks 5)**

**Q1:** Alaman Corp. just paid a dividend of $2.15 yesterday. The company is expected to grow at a steady rate of 5 percent for the foreseeable future. If investors in stocks of companies like Alaman require a rate of return of 15 percent, what should be the market price of Alaman’s stock ? **(1 mark)**

**Answer**

**Q2:** Carrefour is expecting its new center to generate the following cash flows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Years** | **0** | **1** | **2** | **3** | **4** | **5** |
| **Initial investment** | **($35,000,000)** | |  |  |  |  |
| **Net operating cash flows** |  | **$6,000,000** | **$8,000,000** | **$16,000,000** | **$20,000,000** | **$30,000,000** |

a. What is the payback period for this new center. **(1 mark)**

b. Calculate the net present value using a cost of capital of 15 percent. Should the project be accepted? **(1 mark)**

**Answer**

**Q3**: Alfa corp has a capital structure which is based on 50% common stock, 20% preferred stock and 30% debt. The cost of common stock is 14%, the cost of preferred stock is 8% and the pre-tax cost of debt is 10%. The firm's tax rate is 40%. **(2 marks)**

1. Calculate the WACC of the firm.
2. The firm is considering a project that is equally as risky as the firm's current operations. This project has initial costs of $280,000 and annual cash inflows of $66,000, $320,000, and $133,000 over the next three years, respectively. What is the net present value of this project?

**Answer**