

## THE STEPS

- Determine the Cost of Capital
- Determine the market value of capital
- Apportion cost based on the market value



WACC Apportionment:

$$\frac{MV(\text{debt}) \times MV(\text{Debt})}{[MV(\text{Equity}) + MV(\text{Debt})]}$$



## VALUING PREF SHARES

- Non-Redeemable:  
 $D1 / (r - g)$   
 $r$  = Required Rate of Return  
 $g$  = Growth Rate
- Redeemable:  
Perform a Net Present Cost Calc using Market Rate

## COST OF EQUITY

$$K_e = D1 / P + g$$

$D1$  = Dividend of next year  
 $P$  = MV per share  
 $g$  = Growth Rate



## CALCULATING WACC



## VALUING DEBT

Perform a Net Present Cost Calc using Market Rate.

Use CF0 method on the calculator

## COST OF PREF SHARES

$$K_p = D / MV$$

$D$  = Annual dividend  
 $MV$  = Market value



Section 24J:  
AMORT function for the period x Tax Rate =  
Amount to be added as the tax benefit



## VALUATION RULES

- Identify the driver of value
- Identify the costs involved
- Understand the terms of the instrument