

## **CFA® SAMPLE QUESTION – LEVEL I**

## **Equity Investments**

Q: Stock ABC paid a dividend of \$0.5 per share last year from an EPS of \$0.90 per share. The firm's earnings and dividend are expected to growth at 7% per year constantly.

Shareholders of ABC require a return of 14% on their investment. As a result, the justified trailing and leading P/E multiples are closet to:

**CORRECT ANSWER:** 

	Trailing P/E	Leading P/E	
C	8.49	7.94	
First let us find out the Price 0 of the stock first.		Then we have P0 = 0.5*1.07/ (0.14 - 0.07) P0= 7.64	
Remember P0 = D1/ (r-g) D1 = Dividend at the end of year 1		Justified Trailing P/E = P0/ E0 = 7.64/0.9 = 8.49 Leading P/E = P0/ E1 = 7.64/ (0.9*1.07) = 7.93	
r = required rate of return g = growth rate			CFA Society Hong Kong Candidate Services



Date of issue:

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