

Ch. 9

For The Investor

①

RUBA  
MTOOR

Financial leverage:

الرافعة المالية

↳ Financing with a fixed charge

التقويل برسوم ثابت

Interest ← مثل

\* Financial leverage is

↳ Successful if the firm earns more on the borrowed funds than it pays to use them

تكون ناجحة إذا كانت الشركة تكسب على الأموال

المقرضة أكثر مما تدفع مقابل استخدامها [Interest < العوائد]

\* Using Financial leverage results in a fixed charge

that can affect the earnings available to the common shareholders

يتمتع عند استخدام الرافعة المالية / رسوم تقويل ثابتة يمكن أن تؤثر على الأرباح المتاحة للمساهمين الخارجيين.

$$* \% \Delta \text{ Net Income} = \frac{\text{Net Income (Base year)} - \text{Net Income (بعد التغيير)}}{\text{Net Income (Base year)}} \times 100\%$$

Net Income  
(Base year)

②  
% Δ Earning Before Interest & Taxes [EBIT]

$$\rightarrow \frac{\text{EBIT}_{(\text{Base year})} - \text{EBIT}_{(\text{العام السابق})}}{\text{EBIT}_{(\text{Base year})}} \times 100\%$$

\* Degree of Financial leverage: → *مقدار التغير المالي*

$$\rightarrow \frac{\% \Delta \text{ Net Income}}{\% \Delta \text{ EBIT}} = \boxed{X}$$

\* Simple Formula for degree of financial leverage:

$$\rightarrow \frac{\text{EBIT}}{\text{Earning Before Tax}} = \boxed{X}$$

→ Any change in EBIT will be accompanied by *بمقدار*  $X$  times that ~~is~~ whether it is an increase or decrease.

*أي تغيير [EBIT] يترجم بتغيير [Change in Net Income] بمقدار  $X$  في اتجاه الدخل سواء زيادة أو نقصان*

Example → Degree of Financial leverage = 1.25

EBIT rise 4% → Net Income rise [4 x 1.25 = 5%]

(3)

Degree of financial leverage should exclude:

- ① Minority share of earnings. حصة الأقلية من الأرباح
- ② Equity Income. دخل حقوق الملكية
- ③ Non recurring items. الشئ غير المتكررة

All-Inclusive Degree of Financial leverage: [DFL]

↳ Earnings Before Interest, Tax, minority share of earnings, Equity Income and nonrecurring items

---

Earnings Before Tax, minority share of earnings, Equity Income and nonrecurring items

← الفرق بين البسط والمقام هو [Interest] لأن  
بدي أدريس تأثيرها.

If the DFL increase and EBIT increase the financial leverage work for the owners, but if the DFL increase and EBIT decrease the financial leverage work against the owners.

(4)

Earning per share [EPS]  $\rightarrow$  كسبة العائد  $\rightarrow$  لفترة مالية كاملة

$$\rightarrow \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{weighted Average \# of C.S outstanding}} \\ (\text{WA \# C.S outstanding})$$

WA # C.S outstanding

Period	[# Shares	x	Fraction	=	Weighted Average]
Jan - June	10,000		6/12		5000
July - September	12,000		3/12		3000
October - December	15,000		3/12		3,750
					11,750

Stock dividends & stock split do not the firm more funds, they only change the # outstanding shares.

EPS  $\rightarrow$   $\left\{ \begin{array}{l} \text{split} \\ \text{dividend} \end{array} \right.$   $\rightarrow$  بعد أخذ العائد  $\rightarrow$  بين العائد

Capital structure:

- $\rightarrow$  Simple capital structure
- $\rightarrow$  Complex capital structure  $\rightarrow$  يحتوي على Dilutive securities

- ① Options, rights, warrants
- ② Convertible Debt
- ③ Convertible preferred equity
- ④ Contingent shares

5

### EPS Data Must Be Presented For:

① Basic EPS.

② Diluted EPS. [Basic EPS أقل منه]

لأنه يفتقر فيه : worst case scenario

لو صار الربح صافياً ، عقوله د. خاصة شماس

### Examples

- ① WA# C.s outstanding → 800,000
- ② Convertible P.s → 10,000 [P:c 1:5] and dividend = \$10 per share
- \*③ Convertible Debt → 20,000 of 5% bonds into 5000 C.s
- ④ Stock option → 10,000 into 1,818 C.s
- ⑤ Net Income before preferred dividends = \$ 2,000,000
- ⑥ Tax Rate = 25%

	Basic EPS	Diluted EPS
Net Income	2,000,000	2,000,000
less: Preferred dividends [10,000 x 10]	100,000	100,000
Add: [20,000 x 5% x $\frac{1 - \text{tax Rate}}{1}$ ] *	—	750
Numerator [A]	1,900,000	2,000,750
WA # C.s outstanding	800,000	800,000
Convertible P.s [10,000 x 5]	—	50,000
Convertible Debt	—	5,000
Stock option	—	1,818
Denominator [B]	800,000	856,818
EPS [A ÷ B]	2.38	2.34

(6)

Price/Earning Ratio → Its a Function of the market

↳ Measure the relationship Between the market Price of Cos and that stock's current EPS  
↳ بتعني Diluted EPS من اكون اكثر تحفظاً

$$\text{Price/Earning Ratio} = \frac{\text{Market Price Per Share}}{\text{Diluted EPS before Nonrecurring Items}}$$

Companies with high-growth opportunities generally have a high price/Earning Ratios and this is better for investors [often]

Dividend payout توزيع الأرباح

↳ Measures the portion of current EPS being paid out in dividends.

بتعني الحصة من الأرباح التي يتم توزيعها  
الأرباح

lower payout typically found in → New Firms  
↳ Growth Firms شركات ناشئة

$$\text{Dividend payout} = \frac{\text{Dividend per Cos}}{\text{Diluted EPS Before Nonrecurring Items}}$$

(7)

The dividend payout Ratio has a problem as Investor may assume that dividend payout implies that EPS represent Cash.

قد يفترض بعض المستثمرين أن EPS تمثل Cash

\* تختلف تفضيلات المساهمين

- Some stockholders prefer high dividends
- Some stockholders prefer low dividends and reinvest the earnings in hopes of higher capital Gains.

Dividend Yield العائد الربحي

↳ Indicates the relationship between the dividends per C.S and the market price per C.S

$$\text{Dividend Yield} = \frac{\text{Dividend per C.S}}{\text{Market price of C.S}}$$

\* If the firm successfully invest Retained Earnings the price should rise and the dividend yield is likely to be low.

\* Investors that prefer high dividends preferred high dividend yields.

⑧

Book Value Per Share

القيمة الدفترية للشركة

↳ Indicates the amount of stockholders' equity that relates to outstanding CoS

$$\text{BV per Share} = \frac{\text{Total stockholders Equity} - \text{P.o.S Equity}}{\# \text{ of CoS outstanding}}$$

P.S should be measured @ liquidation value

\* Book value reflects past unrecovered asset costs  
↳ تعكس القيمة الدفترية تكاليف الأصول التي لم يتم استردادها من قبل الشركة

\* Market value reflects the potential of the firm  
↳ تعكس القيمة السوقية إمكانيات الشركة

RUBA  
MTOOR