J/ RUBA
MTOOR

Ch.9

For The Investor

الرافعة المالية

Financial leverage:

↳ Financing with a fixed charge التمويل برسم ثابت

↳ مثل: Interest

* 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 المقترضة 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

ينتج عن استخدام الرافعة المالية / رسوم تمويل ثابتة يمكن أن تؤثر على الأرباح المتاحة للمساهمين العاديين.

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

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: anonymous

②

%Δ Earning Befor Interest & Taxes [EBIT]

↳ $\frac{\text{EBIT (Base year)} - \text{EBIT (بعد التغيير)}}{\text{EBIT (Base year)}} \times 100\%$

* Degree of Financial leverage: → للمدى أقبل مقارنة

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

* Simple Formula For degree of Financial leverage:

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

→ Any change in EBIT will be accompined by X times that ≠ , whether it is an increase or decrease.

[Change in Net Income] يصحبه تغير [EBIT] أي تغير في

بمقدار X في صافي الدخل سواء

زيادة أو نقصان

Example → Degree of Financial leverage = 1.25

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

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: Anonymous

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. البنود غير المتكررة

All-Insclusive 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 البسط والمقام يأثرها بدين أدرس 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.

STUDENTS-HUB.com
Scanned by TapScanner
Uploaded By: anonymous

Earning per share [EPS] ربحية السهم → فترة مالية كاملة

↳ $\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{weighted Average \# of C.S outstanding}}$

(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
				WA # C.S outstanding	11,750

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

EPS → تعب بعد أخذ stock split / dividend بين الأرباح

Capital structure:

- Simple capital structure
- Complex capital structure → Dilutive securities تخويل على

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

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: Anonymous

EPS Data Must Be Presented For:

① Basic EPS.

② Diluted EPS. [Basic EPs أقل من]

لـ يفترض فيه : worst Case scenario

لو ظهر اللي ما ظهر معقول د. حامية شفاعي

Examples

① WA# C.s outstanding → 800,000

② Convertible P.s → 10,000 [P:C 1:5] and dividend = $10 per share

*③ Convertibe Debt → 20,000 of 5% bonds into 5000 C.s

④ Stock option → 10,000 into 1,818 C.s

⑤ Net Income befor 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	خوتس د C.s
Add: [20,000 x 5% x 75%] * (1 - tax Rate)	—	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	—	5000
stock option	—	1,818
Denominatore [B]	800,000	856,818
EPS [A ÷ B]	2.38	2.34

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: anonymous

Price / Earning Ratio → Its a Function of the market

↳ Measure the relationship Between the market Price of Co.s and that stock's current EPS

↳ يعني Diluted EPs عشان أكون أكثر تحفظاً

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

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.

يعني الجزء من الأرباح الخاصة لكل سهم عادي يتم دفعه

أرباح الأسهم

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

$$\text{Dividend payout} = \frac{\text{Dividend per Co.s}}{\text{Diluted EPS Befor Nonrecurring Items}}$$

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: Anonymous

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 stocholders prefer low dividends and reinvest the earnings in hopes of higher capital Gains.

Dividend Yield العائد الرئيسي

↳ 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 yield.

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: Anonymous

Book Value Per Share القيمة الدفترية للسهم

↳ Indicates the amount of stockholders' equity that relates to outstanding C.S

$$\text{B.V per Share} = \frac{\text{Total stockholders Equity} - \text{P.S Equity}}{\#\text{ of C.S outstanding}}$$

P.S should be measured @ liqidation value

* Book value reflects past unrecovered asset Costs

↳ تعكس القيمة الدفترية تكاليف الأصول السابقة غير المستردة

* Market value reflects the potential of the Firm

↳ تعكس القيمة السوقية إمكانيات الشركة

J. RUBA MTOOR

STUDENTS-HUB.com

Scanned by TapScanner

Uploaded By: anonymous