Calculation of Cost of Capital for a Foreign Company

Instructions: Pick any of the globally publicly listed companies (NISSAN) compute the company’s overall weighted average cost of capital (WACC) that can be used to evaluate a project that has a life of 10 yrs. Write up your analysis (should not exceed 4 pages) adhering to the following steps: An introductory paragraph briefly talking about your company and why you chose it. Estimation of the risk-free rate (provide the value, source, date, as well as short explanation behind your answer)Estimation of the equity market risk premium (provide the value, source, as well as short explanation behind your answer)Estimation of beta (use the monthly stock prices of the last 5 years to estimate the beta, present the estimation in a graph, and interpretation of what the beta of your company implies)Computation of your estimated cost of common equity using CAPM (points 2,3,4 above). For comparison of your estimated cost of common equity, compute the cost of common equity using the dividend discount model as well, in this case show the estimation of the upcoming dividend and growth in dividends (provide the value, source, for all your computations).Estimation of cost of debt (provide the value as well as a short explanation behind that)Estimation of the WACC (describing in detail how you got the target capital structure weights, including the sources and dates of when the information was gathered).Explain what the WACC means, how can you use it in decisions, and do you think that you got a reasonable estimate. Explain why a MNC company might need to use a different cost of capital to evaluate the projects of its foreign subsidiaries rather than using the domestic parent’s cost of capital. Useful Data Sources:- To get the US treasury bills and bonds rates go to : www.ustreas.gov- To get the company’s financial information, visit the company’s website (try to find an investor relations section), or get the info from the financial market’s website (for example LSE if it was London Stock Exchange etc..), you will need the most recent stock price data as well.- To get the country’s risk premium, go to Damodaran’s website ( http://damodaran.com ), go to data, current data, risk premiums for other markets. Ideal Solution: Notice that there is no “one” or “correct” answer for your WACC. However, the “ideal” solution/analysis is the one that clearly explains any assumptions and sources of information used, clearly lists the steps used to compute the WACC, and finally mentions any possible limitations in the WACC that they have computed.