

THP Co is planning to buy CRX Co, a company in the same business sector, and is considering paying cash for the shares of the company. The cash would be raised by THP Co through a 1 for 3 rights issue at a 20% discount to its current share price.

The purchase price of the 1 million issued shares of CRX Co would be equal to the rights issue funds raised, less issue costs of \$320,000. Earnings per share of CRX Co at the time of acquisition would be 44·8c per share. As a result of acquiring CRX Co, THP Co expects to gain annual after-tax savings of \$96,000.

THP Co maintains a payout ratio of 50% and earnings per share are currently 64c per share. Dividend growth of 5% per year is expected for the foreseeable future and the company has a cost of equity of 12% per year.

Information from THP Co's statement of financial position:

Equity and liabilities	\$000
Shares (\$1 par value)	3,000
Reserves	4,300
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	7,300
Non-current liabilities	
8% loan notes	5,000
Current liabilities	2,200
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Total equity and liabilities	14,500
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Required:

(a) Calculate the current ex dividend share price of THP Co and the current market capitalisation of THP Co using the dividend growth model. (4 marks)