

Price Earnings Ratio 3 marks

Summer 2018 Paper 31

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Table 3: Accounting data used to compare PGP performance with energy industry averages. 31 March 2018

	PGP	Industry average	
Gearing ratio %	40	28	85
Return on Capital Employed %	9.2	14	
Price earnings ratio	See Q4(a)	16	
Dividend yield %	See Q4(a)	3.5	
Other data for PGP:			
Share price	\$20	-	90
Earnings per share (of which 40% is to be paid in dividends)	\$1.50	-	

External growth

Using revenue as the measure, PGP has doubled in size since privatisation. Most of this growth has occurred through integration. Strategic analysis of PGP has formed the basis for identifying strategic growth options. Most of the takeovers of smaller businesses by PGP since privatisation have achieved the targets set for them. A few takeovers have not achieved their targets, often because of unforeseen external events or the differences in culture of small businesses compared to that of PGP. An updated strategic analysis for PGP is planned by the Board of Directors. 95

Strategic choices

The directors will be discussing two strategic options for further growth of PGP at tomorrow's Board meeting. These are: 100

Option A: Develop a recently discovered oil field

Option B: Invest in renewable energy research.

To assist the directors in making this strategic choice, PGP's Chief Executive Officer has prepared a report on these two options. A summary is shown in Appendix 1. 105

4 (a) Calculate for PGP:

(i) price earnings ratio (3 marks)

Share price/earnings per share

\$20/\$1.5

= 13.3

4 (a)(ii) Calculate for PGP: dividend yield. (3 marks)

Dividend per share/share price \times 100

Dividend per share = 40% \$1.50 = \$0.6

(\$0.6 cents/\$20) \times 100

= 3%
