

FINA 323 Equity Valuation

Instructor: Laura Xiaolei Liu
Office: Room 2387
Phone: 2358-7661
e-mail: fnliu@ust.hk
Office Hours: Monday, 9 -11am

TA: Victor Yip
Office: Room 3392
Phone: 2358-7674
e-mail: victory@ust.hk
Office Hours: Thursday, 10am-12

Course Objectives

The course is designed for students with career interests in financial analysts and investment banking.

A solid understanding of accounting rules is important in valuation, and you can get the necessary information in many accounting courses. This course, however, is not a course in Financial Statement Analysis, so detailed discussion of accounting rules will not be carried out unless those accounting rules are directly relevant to equity valuation.

Different from FINA321, which is from a firm's point of view to evaluate investment projects, the current course is from investors' point of view to evaluate a firm's equity.

There are three basic valuation approaches: (1) discounted cash flow valuation (DCF); (2) valuation by multiples using comparables; and (3) contingent claims (real option) approach of valuation. We will cover all three approaches and do one case for each approach. Besides, we will also introduce some popular trading strategies used by the fund industry.

Prerequisites FINA221

Course Website <http://www.bm.ust.hk/~fnliu/teaching.htm>

Recommended textbooks There is no required textbook. The following books are used as references:

Valuation, Measuring and Managing the Value of Companies by Tim Koller, Marc Goedhart and David Wessels, Fourth Edition, University Edition, McKinsey & Company

Corporate Finance, A Valuation Approach by Simon Z. Benninga and Oded H. Sarig, International edition, McGraw. Hill Company

Investment Valuation: Tools and Techniques for Determining the Value of Any asset by Aswath Damodaran, University Edition, Wiley

Business Analysis & Valuation: Using Financial Statements (Text & Cases) by Palepu, Healy and Bernard, South-Western College Publishing, Thomson Learning.

Student groups

Students should form their own groups of 4 to 6 people at the beginning of the semester. These groups will be responsible for preparing case analyses and valuation project reports and give a presentation for the valuation project. Please hand in the names of group members by September 16 noon to Victor.

Grading

The course grade will be determined on the basis of

1. Class participation	10%
2. Three (group) case reports	30% (10% each)
3. Mid-term Exam	30%
4. Final Exam	40%
5. Valuation Project (group)	40%
a. Report	30%
b. Presentation and Q&A	10%
Total	150%

Please prepare a name card and bring it with you every class. In the case report and valuation project, all group members will receive the same basic grade to begin with. The basic grade will then be adjusted according to a peer evaluation. The peer evaluation will be confidential and will be done at the time of the final exam.

In the peer evaluation, each member of your group will be asked to rank every other member on a scale of 1 to 5 (for a 6 members group) indicating his/her evaluation of each member's relative contribution to the group's effects (excluding himself/herself). A rank of 5 is the best possible, and 1 is the lowest possible. The average rank of each group member will then be computed. Suppose this average rank for an individual is x (a number between 1 and 5), that individual's eventual grade in the group case and project is:

$$\text{Grade} = \text{Basic grade} \times [95\% + 5\% \times (x-3)/2]$$

If the group size is less than 5, the formula will be adjusted accordingly as following:

$$\text{5 members group: Grade} = \text{Basic grade} \times [95\% + 5\% \times (x-2.5)/1.5]$$

Note you are not allowed to give the same rank to any two people in your group. If you do or you do not rank someone in your group, those individuals will be assigned a median rank from you (for example, 3 for a group of size 6). As a penalty, your average rank will be lowered to 1.

The valuation project will be handed out at the first day of class. Each group is required to turn in a one page progress report at the middle of the semester. The report will not be graded, but you may get some feedback based on it. Besides a valuation report, each

group will need to prepare a 10 to 15 minutes presentation. There will be two parts of the presentations, which part your group belongs to will be determined by lottery on September 19th. Your group will also be responsible for asking questions after the presentation of another group, which will also be assigned to you after the lottery.

The midterm exam will be on Friday, October 17th (7:00pm - 8:30pm). The final exam will be schedule by the Registrar during the published final exam period. Plan to be available for the midterm and final exams on the scheduled dates.

Course Outline

The class schedule is provided below. Keep in mind that this is only a rough schedule and that I may speed-up or slow down depending on the progress of the class.

Week of	Topic	Assignment
1-Sep	Introduction	Hand out the valuation project
5-Sep	Dividend Discount Model	
8-Sep	Discounted Free Cash Flow	Hand out DCF case
12-Sep	Review of financial accounting	
19-Sep	Forecasting	Draw lottery to decide presentation dates
22-Sep	Forecasting	
26-Sep	Discuss DCF case	DCF case due on Sept 26 noon
29-Sep	Forecasting	
3-Oct	Valuation using multiples	
6-Oct	Valuation using financial multiples	Hand out the valuation using multiple case
10-Oct	Valuation using non-financial multiples—Subscriber model	
13-Oct	Estimate cost of capital	
17-Oct	Midterm exam	7:00pm-8:30pm
20-Oct	Reuters workshop	Valuation using multiples case, and one page progress report due on Oct 24 noon
24-Oct	Discuss second case	
27-Oct	Go over midterm	
31-Oct	Estimate cost of capital	
3-Nov	Estimate cost of capital - case	
7-Nov	Valuation using real options	Hand out the real option case
10-Nov	Valuation using real options	
14-Nov	Trading strategies	
17-Nov	Trading strategies	
21-Nov	Discuss real option case	Real option case due on Nov 21 noon
24-Nov	Guest speaker	
28-Nov	Valuation project presentation	Valuation project due on Nov 28 noon
1-Dec	Valuation project presentation	
5-Dec	Final review	