

FINA 323 Equity Valuation

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Tutorial: to be decided

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 LMES

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

Valuation, Analyzing Global Investment Opportunities by Sheridan Titman, John D. Martin and V. Ravi Anshuman

Valuation, Measuring and Managing the Value of Companies by Tim Koller, Marc Goedhart and David Wessels, Fourth Edition, University Edition, McKinsey & 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 15 midnight 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%

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:

$$\text{Grade} = \text{Basic grade} \times [100\% + 5\% \times (x-3)/2]$$

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

$$\text{5 members group: Grade} = \text{Basic grade} \times [100\% + 5\% \times (x-2.5)/1.5]$$

The people with the same rank will get the median rank. (For example, for a 6 members group, you can rank: 5, 3, 3, 3, 1, or 5, 4, 2, 2, 2, or 4.5, 4.5, 3, 2, 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 15th. 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 Thursday, October 15th night. 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.