Investment Assignment

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Executive Summary

- Company overview
- Historical performance reflects companies earnings
- How the nature of the company decide the level of the risk/return/earnings
- Decisions that you made about the company based on your analysis

[outside of the word limit]

Part 1 [10%]

Part 1 contains 4 questions:

Q1) Evaluate the company's recent and overtime financial performance by analysing the companies share price performance, financial statements and other relevant news during the last five years.

- Focus points:
  1. Recent financial performance [past 2 years]
     - choose a time frame (Look for any major public announcements)
  2. Overtime financial performance [past 5 years]
     - choose a time frame

Q2) Peer group comparison/industry analysis [only choose 5 major competitors from the list for discussion]

Q3) Analyse the company's/industry current issues and explain the impact of these issues on the company's future earnings

1. At Macro Level
   - general factors that apply for the industry (income, growth of the industry, govt. regulation etc.)
2. At Micro Level
   - the company specific requirements (operation, level of debt, directions/goals, competition etc.)

Part 1 (cont.)

Q4) Estimate the ROE of the company for last five years [for example; 2010-2015] using the DuPont ROE approach.

– **DuPont Analysis can be done using either of the following steps**
  - 3 steps: Profit Margin, Total Asset Turnover and Financial Leverage
  - 5 steps: In addition, Interest Expense rate and Tax Retention Ratio

  Refer to chapter 4 or Topic 4 Lecture slides for formulas

– **Compare the financial performances of the company with its peer groups**
  - Choose 2 peer (competitor) companies for comparison

[Approximately 2500 words!]

Part 2 – Valuation [15%]

Part 2 contains 2 questions:

Q1) Start your valuation analysis with the CAPM estimation

You need 3 variables to calculate the CAPM:

- Estimate Beta (β): ➲You can estimate beta by using regression analysis **Or** by manual calculation
  - ➲ For both approach you need to use the stock price data of the company and ASX/S&P200 to estimate return for five years
  - ➲ Then follow the formula of beta estimation on topic 3
- Risk-Free Rate of Return: Take the 10 year Govt. bond yield rate as a proxy for RFR
- Risk Premium: It is the difference between expected market return E(Rm) and RFR
  - ➲ We have provided E(Rm)= 9.610% [source: Bloomberg]

Once you estimate the CAPM required rate of return denoted as E(Re) following the steps above, you can use this return (also known as cost of equity, ke) in the valuation model

Part 2 (cont.)

Q2) Estimate the valuation model using two different techniques to estimate the intrinsic value of the company discussed in topic 6 (chapter 6):

- Estimate dividend discount model or dividend valuation model (DDM)
- Estimate free cash flow to equity model (FCFE)

➢ **Dividend Valuation Model (DDM): Follow the formula discussed in chapter 6**

- Use CAPM return
- Estimate the growth rate (g = Retention ratio x DuPont ROE)
- Use assumptions if necessary
- Forecast dividends (if applicable)

➢ **Free Cash flow to Equity (FCFE): Follow the formula discussed in chapter 6**

- Growth rate of FCFE (you can take changes in FCFE values over the past five years to predict the growth rate)
- Use assumptions if necessary
- Forecast FCFE (if applicable)

[Approximately 2000 words!]

Part 3 [5%]

Part 3 contains the evaluation of the value/price of the company

Write this part answering the following questions:

- Why the intrinsic value (you estimated) of the company differs from the current/recent share price?
- Why the value of the company differs across different valuation models?
- Which model is the most appropriate and why?
- And most importantly, what is your investment decision based on your evaluation?

[Approximately 1500 words!]

Last Notes

- **The report is to be presented in a form of a business report**
- **Reference**
- **No copy and paste**
- **Keep it short, but logical and concrete!!**