



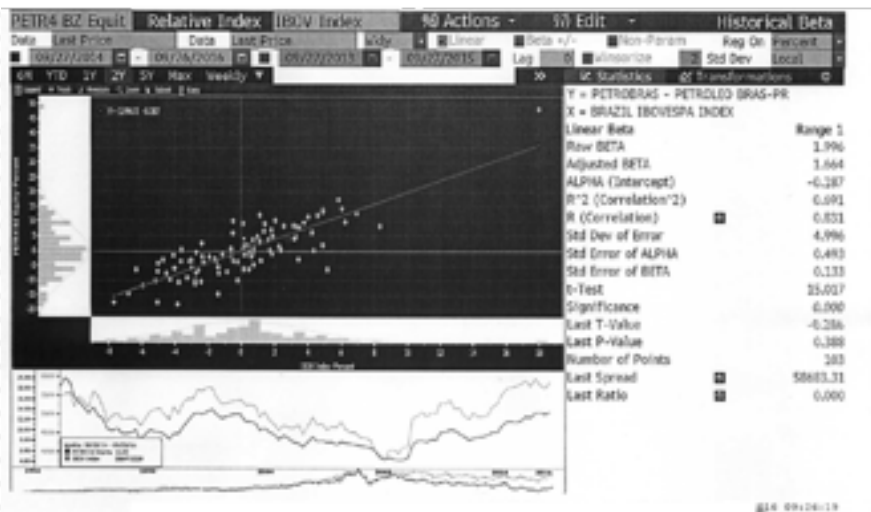
BETA AND COST OF CAPITAL TESTS

Start of session 6

Regression Betas

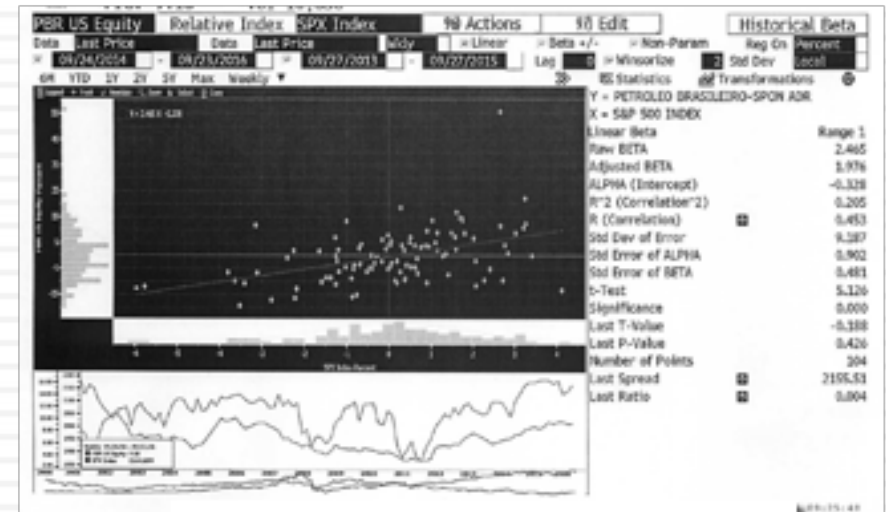
- Assume that you are trying to estimate the beta for Petrobras, for a valuation that you plan to do in US dollars. Which of the following regressions would you use and why?

Petrobras: Local listing vs Bovespa (\$R)



Currency: \$ R
 Beta = 1.66
 R squared = 69%
 Std Error of Beta = 0.13

Petrobras: ADR vs S&P 500 (US \$)



Currency: US \$
 Beta = 1.98
 R squared = 21%
 Std Error of Beta = 0.48

Bottom up Betas

- We estimate “bottom up” betas as an alternative to regression betas. To obtain the bottom up beta for a firm, we average regression betas across “comparable” firms. Given a choice, which of the following is likely to yield the best bottom up beta estimate?
 - a. A small sample of companies similar to yours
 - b. A large sample of companies that may have differences from yours
 - c. One company exactly like yours
- A comparable firm has to be a
 - a. A firm in the same industry group
 - b. A firm listed in the same market
 - c. A firm with a similar market cap
 - d. None of the above
 - e. All of the above