



# RELATIVE VALUATION II

Aswath Damodaran

# PBV and ROE

- You are looking at three companies in the same business, all with a cost of equity of 10%. Company A has an ROE of 12%, company B has an ROE of 10% and company C has an ROE of 8%. Which one is most likely to be trading at below book value?

- a. Company A
- b. Company B
- c. Company C

If you were to make a judgment of which of these companies is best managed, which one would you pick?

- Now assume that company C (which had an ROE of 8%) decides to take a major write off that reduces their book equity by 50%.
  - a. What will happen to the P/BV ratio?
  - b. What will happen to the ROE?

# Revenue Multiples and ?

You are comparing the revenue multiples of retail firms. If you pick companies based just upon the revenue multiple (low is good), which of the following is most likely to look cheap to you?

- a. Department Stores
- b. Discount retailers
- c. Luxury retailers
- d. None of the above

# The Power of a Brand Name

	4Q09	1Q10	2Q10	3Q10	4Q10	Q111	Q211	Q311
<b>Apple operating income</b>	1,562	1,579	1,600	2,823	3,350	4,058	4,659	3,843
<i>Apple mobile device operating margin</i>	28%	29%	30%	32%	32%	33%	35%	35%
<b>Apple value share</b>	33%	34%	38%	47%	43%	51%	57%	52%
<b>Nokia operating income</b>	1,849	1,072	863	1,000	1,483	984	531	302
<i>Nokia mobile device operating margin</i>	15%	12%	10%	10%	13%	10%	7%	4%
<b>Nokia value share</b>	39%	23%	21%	17%	19%	12%	7%	4%
<b>Samsung operating income</b>	562	922	498	889	1,156	1,223	1,489	2,158
<i>Samsung mobile device operating margin</i>	8%	12%	7%	10%	12%	13%	14%	17%
<b>Samsung value share</b>	12%	20%	12%	15%	15%	15%	18%	29%
<b>Research In Motion operating income</b>	884	1,012	1,059	1,082	1,256	1,240	897	525
<i>RIM mobile device operating margin</i>	27%	31%	32%	30%	28%	28%	25%	18%
<b>RIM value share</b>	19%	22%	25%	18%	16%	16%	11%	7%
<b>Motorola operating income (loss)</b>	-118	-148	-109	3	56	-61	-31	-15
<i>Motorola mobile device operating margin</i>	-6%	-9%	-6%	0%	2%	-3%	-1%	-1%
<b>Motorola value share</b>	-3%	-3%	-3%	0%	1%	-1%	0%	0%
<b>Sony Ericsson operating income (loss)</b>	-256	31	46	86	51	27	-52	55
<i>Sony Ericsson mobile device operating margin</i>	-10%	2%	2%	4%	3%	2%	-3%	2%
<b>Sony Ericsson value share</b>	-5%	1%	1%	1%	1%	0%	-1%	1%
<b>LG operating income (loss)</b>	57	25	-103	-266	-231	-91	-51	-124
<i>LG mobile device operating margin</i>	2%	1%	-4%	-10%	-8%	-4%	-2%	-5%
<b>LG value share</b>	1%	1%	-2%	-4%	-3%	-1%	-1%	-2%
<b>HTC operating income</b>	170	154	313	379	606	559	666	679

Which smart phone company has the strongest brand name? Why?