Equity Valuation Project

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Project Description

■ This project is designed to apply the valuation techniques we learn in class on companies in the real world.

■ It is an individual project, with each person in the group picking one company to value.

Step 1: Discounted Cashflow Valuation

- Value the stock in your company using a discounted cash flow model (You have the discretion to choose the model that you think is most appropriate for that company)

- Estimate how sensitive your value estimates are to changes in your assumptions.

- What are the key drivers of value for your company? (Identify the key assumption or variable that you would focus on in doing your discounted cash flow valuation. Examples wold include the growth rate assumption, the growth period assumption, the net capital expenditure assumption .....)

Step 2: Develop a Value Enhancement Strategy

- Given your firm's specific characteristics, evaluate the most promising avenues for it to increase value.
- If you can, estimate the effect on value of the value enhancement strategy.

Step 3: Value relative to comparables

- Prepare a list of "comparable" companies, using criteria that you think are appropriate
- Choose a multiple that you will use in comparing firms across the group. (You might have to try a number of multiples out before making this choice)
- Evaluate your company against the comparable firms using the multiple that you have chosen for your valuation.
  - using simple techniques (do a qualitative analysis adjusting the average for comparable firms)
  - using a sector regression

Step 4: Value relative to the market

■ Using the latest regression posted for the market on my web site, and the multiple you chose in step 3, evaluate whether your firm is under or over valued.

- If you have a non-U.S. company which has an ADR listed on it, you can use the U.S. regression
- While I will not require it, I will be very impressed if you run a regression of the multiple in your foreign market (use the 50 largest firms, if you want to reduce your work load) against the variables that determine that multiple.

Step 5: Final Value Estimate and Recommendation

■ Consider the values you have obtained from the discounted cash flow, relative and option valuation models.

- How would you reconcile the different estimates of value?
- Make a final recommendation on your stock - would you buy, sell or chicken out?