

Equity Research (EQR)

Syllabus

Master in Finance (Elective Course Unit)

2018/2019, 1st Semester

FACULTY:

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OFFICE HOURS: Thursdays, 12:00-13:00, Faculty Room (Room 207-A, Francesinhas 1)

COURSE OBJECTIVES:

This course unit aims to provide a deep understanding of the structure of an Equity Research report, which includes the following learning objectives:

- Analyze industries structures in a global context;
- Evaluate competitive forces that may shape companies' strategies;
- Analyze how economic environments affect firms' performance;
- Understand issues that may affect security valuation at an international level;
- Understand how to use the 'mosaic theory' to gather information on a company;
- Forecast company's financial statements;
- Analyze and evaluate equity securities using appropriate valuation techniques;
- Contrast different valuation techniques;
- Prepare an Equity Research report and issue an investment recommendation.

Students attending the course unit of EQR are strongly encouraged to develop an Equity Research as Master's Final Work (MFW) – Project.

The course unit is designed to guide and help students (step by step) to successfully develop an Equity Research report. The main group work assignment may well be used in the MFW (a refined version!), and the oral presentation partially simulates a presentation in a Master's viva voce examination. Examples of previous Equity Research reports developed by students in the Master in Finance may be found on my web page, section 'Equity Research'.

TEACHING METHODOLOGY:

The course unit adopts CFA Institute recommended materials (e.g., textbooks, slides, videos, Financial Analysts Journal, amongst others) to introduce and develop key concepts and skills that are required to perform an Equity Research report. The course unit takes the perspective of a sell-side analyst.

The typical class consists of an initial part in which theoretical concepts are detailed, and of a second part that aims to challenge students with practical applications. Case studies, reports on industries, companies' reports, papers (e.g., Financial Analysts Journal) and other supplementary materials are used to contrast the theoretical concepts with practical applications.

COURSE OUTLINE:

Chapter	<i>Readings</i>
1. Introduction and Preliminaries	
2. Equity Research Report: Overview, Application, and Processes	<i>Chapter 1 EAV</i>
2.1. Research Design of an Equity Research Report	
2.2. The Valuation Process	
2.3. Building a Valuation Model with Excel: Practical Tips	
2.4. Exploring Sources of Information: Company's Financials, Reuters, and Bloomberg	
2.5. Communicating Valuation Results	<i>ROS</i>
3. Strategic Management and Industry Analysis	<i>PORTER</i>
3.1. Strategic Plans and Five Competitive Forces that Shape Strategies	
3.2. Industry and Company Analysis	
4. Economics for Valuation	<i>ECO</i>
4.1. Currency Exchange Rates	
4.2. Economic Growth and the Investment Decision	
5. Financial Analysis and Reporting	<i>Chapter 4-7, 9, 17 IFSA</i>
5.1. Understanding Financial Statements and Financial Analysis Techniques	
5.2. Integration of Financial Statement Analysis Techniques	
5.3. Financial Analysis Applied to Valuation	
5.4. Evaluating Financial Reporting Quality	
5.5. Issues in the Forecasting Financial Statements	
6. Equity Valuation	
6.1. Return Concepts	<i>Chapter 2 EAV</i>
6.2. Valuation Methods	<i>Chapter 3-6 EAV</i>
6.2.1. Discounted Dividend Valuation	
6.2.2. Free Cash Flow Valuation	
6.2.3. Market-Based Valuation: Price and Enterprise Value Multiples	
6.2.4. Residual Income Valuation	
6.2.5. Valuation with Options: Special Cases	
6.3. Issues in Private Company Valuation	<i>Chapter 7 EAV</i>
6.4. Sensitive, Scenario and Simulation Analyses	

BIBLIOGRAPHY:

Mandatory Reading:

(EAV) Pinto, J.; Henry, E.; Robinson, T.; Stowe, J.; Miller, P. (2016), *Equity Asset Valuation*. 3rd edition, CFA Investment Series. John Wiley & Sons, Inc.

Other Readings:

(IFSA) Robinson, T.; Henry, E.; Pirie, W.; Broihahn, M. (2015), *International Financial Statement Analysis*. 3rd edition, CFA Investment Series. John Wiley & Sons, Inc.

(PORTER) Porter, Michael E. (2008), The Five Competitive Forces That Shape Strategy. Special Issue on HBS Centennial. *Harvard Business Review* 86 (1), 78–93.

(ROS) CFA Institute (2016), *Research Objectivity Standards*. CFA Institute, Centre for Financial Market Integrity.

(ECO) Piros, C.; Pinto, J.; Harris, L. (2013), *Economics for Investment Decision Makers: Micro, Macro, and International Economics*. CFA Investment Series. John Wiley & Sons, Inc.

Damodaran, A. (2015), *The Dark Side of Valuation: Valuing Young, Distressed, and Complex Businesses*. 2nd edition, FT Press, Pearson Education.

Clayman, M.; Fridson, M.; Troughton, G.; Scanlan, M. (2012), *Corporate Finance: A Practical Approach*. 2nd edition, CFA Investment Series. John Wiley & Sons, Inc.

Koller, T.; Goedhart, M.; Wessels, D. (2010), *Valuation: Measuring and Managing the Value of Companies*. 5th edition, McKinsey & Company Inc. John Wiley & Sons, Inc.

Valentine, J. (2010), *Best Practices For Equity Research Analysts: Essentials for Buy-Side and Sell-Side Analysts*. 1st edition, McGraw-Hill.

Duff & Phelps (2017), *2017 Valuation Handbook: U.S. Guide to Cost of Capital*. John Wiley & Sons, Inc.

(Academic) Publications from the CFA Institute:

Financial Analysts Journal – a peer-reviewed journal circulated by the CFA Institute, which contains theoretical and empirical analyses developed by financial experts (both academics and practitioners) and CFA charterholders.

GRADING:

The two elements of the **Continuous Evaluation Regime** (regular period) are as follows:

Three **Individual Assignments** (55%) are going to test students' knowledge of Chapters 4, 5 and 6 of the syllabus. They aim to test applications of theoretical concepts into practice, using mostly real-life examples.

- I. The first (15%) focus on economics, will be held in class and should last about 20 minutes.
- II. The second (20%) covers forecasting of financial statements and financial analysis.
- III. The third assignment (20%) tests equity valuation and risk assessment.

Individual assignments will be tested for authenticity using ISEG's recommended plagiarism software.

The **Group Work Assignment** (45%) consists on the development of an extended Industry Overview and Competitive Position for a specific industry (Chapter 3). The grading will be based on a written report (30%) and on an oral presentation (15%), including peer assessment.

Industries will be chosen on a first-come first-served basis.

Groups/teams must prepare a written report, together with a PowerPoint presentation.

Students must organize themselves into groups of 4 (min) to 6 (max) students.

A minimum grade of 8.0 (out of 20) is required in the two elements.

Participation in Class might add up to 1.0 point to the final grade for more active participating students.

Assignments	Topic	Date (Deadline)
Individual 1	Chp 4. Economics for Valuation	24/10/2018 (in class) 26/10/2018 (in class)
Individual 2	Chp 5. Financial Analysis and Reporting	18/11/2018
Group Work	Chp 3. Strategic Management and Industry Analysis	Written report: 10/12/2018 Presentation: 12/12/2018 Presentation: 14/12/2018
Individual 3	Chp 6. Equity Valuation	04/01/2019

The only grading element for the **Final Evaluation System** is a final exam (100%) in the repeated period (04/02/2019).