

## Equity Research (EQR)

### Syllabus

#### Masters in Finance (Elective Course Unit)

2020/2021, 1<sup>st</sup> Semester

#### FACULTY:

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**OFFICE HOURS:** Upon request, MS Teams

#### 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 of EQR are strongly encouraged to develop an Equity Research as Master's Final Work (MFW) – Project.**

The course is designed to guide students (step by step) to develop an Equity Research report successfully. The 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. The second individual assignment is also the first approach into the forecasting for the MFW. Examples of previous Equity Research reports developed by students in the Masters in Finance may be found on my web page, section 'Equity Research'.

## TEACHING METHODOLOGY:

The course 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 takes the perspective of a 'sell-side analyst'.

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:

<b>Chapter</b>	<i>Readings</i>
<b>1. Introduction and Preliminaries</b>	
<b>2. Equity Research Report: Overview, Application, and Processes</b>	<i>Chapter 4 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>
<b>3. Strategic Management and Industry Analysis</b>	<i>PORTER</i>
3.1. Strategic Plans and Five Competitive Forces that Shape Strategies	
3.2. Industry and Company Analysis	<i>Chapter 2, 6 EAV</i>
<b>4. Economics for Valuation</b>	<i>ECO</i>
4.1. Currency Exchange Rates	
4.2. Economic Growth and the Investment Decision	
<b>5. Financial Analysis and Reporting</b>	<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	
<b>6. Equity Valuation</b>	<i>Chapter 5, 7-11 EAV</i>
6.1. Return Concepts	
6.2. Valuation Methods	
6.2.1. <i>Discounted Dividend Valuation</i>	
6.2.2. <i>Free Cash Flow Valuation</i>	
6.2.3. <i>Market-Based Valuation: Price and Enterprise Value Multiples</i>	
6.2.4. <i>Residual Income Valuation</i>	
6.2.5. <i>Valuation with Options: Special Cases</i>	
6.3. Issues in Private Company Valuation	
6.4. Sensitive, Scenario and Simulation Analyses	

## **BIBLIOGRAPHY:**

### Mandatory Reading:

**(EAV)** Pinto, J.; Henry, E.; Robinson, T.; Stowe, J.; Wilcox, S. (2020), *Equity Asset Valuation*. 4<sup>th</sup> edition, CFA Investment Series. John Wiley & Sons, Inc.

### Other Readings:

**(IFSA)** Robinson, T.; Henry, E.; Pirie, W.; Broihahn, M. (2015), *International Financial Statement Analysis*. 3<sup>rd</sup> 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*. 2<sup>nd</sup> edition, FT Press, Pearson Education.

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

Koller, T.; Goedhart, M.; Wessels, D. (2010), *Valuation: Measuring and Managing the Value of Companies*. 5<sup>th</sup> 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*. 1<sup>st</sup> 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 elements of the **Continuous Evaluation Regime** (regular period) are as follows:

Two **Individual Assignments (60%)** are going to test students' knowledge of Chapters 4, 5 and 6. They aim to test applications of theoretical concepts, using mostly real-life examples.

- I. The **first (25%)** will be held in class. This assignment uses the same structure as CFA Level I (independent multiple-choice questions) and Level II exams (vignette).
- II. The **second (35%)** consists of a preliminary forecast and valuation of the subject company for the MFW.

The **Group Work Assignment (40%)** consists of the development of a comprehensive Industry Overview and Competitive Position for a specific industry (Chapter 3). The grading will be based on a written report (25%) and an oral presentation (15%), including peer assessment.

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

Students must organize themselves into groups of 5 students.

All assignments are mandatory. A minimum grade of 10.0 (out of 20) is required (the group work assignment and the combination of the two individual assignments).

All assignments will be tested for authenticity using ISEG's recommended plagiarism software (including checking against all assignments of previous years).

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

Assignments	Topic	Date (Deadline)
Group Work	Chp 3. & Chp 4.	Written report: 02/11/2020 Presentation: 04/11/2020
Individual 1	Chp 4.; Chp 5. & Chp 6.	02/12/2020 (in class)
Individual 2	Chp 5. & Chp 6. (subject company for the MFW)	04/01/2021

The only grading element for the **Final Evaluation System** is a final exam (100%) in the repeated period (04/02/2021) – covers all topics.