

# Chp 1. INTRODUCTION AND PRELIMINARIES

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Equity Research – Masters in Finance  
2020/2021



LISBON  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT  
UNIVERSIDADE DE LISBOA



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## **Why Equity Research?**

- 1. Course Overview**
- 2. Equity Research: Scope & Careers**
- 3. Equity Research as Master's Final Work**
- 4. CFA Institute Research Challenge**

# WHY EQUITY RESEARCH?

**What is the relevance of equity research reports?**

**Who would benefit from those reports? Why?**

Analysts only have access to public information (never use material non-public information), which makes the job challenging;

Need to use the 'mosaic theory' (combine information from several sources) to support expectations about a number of variables;

There are opportunities to talk with key persons in the subject company (e.g., IR, CFO, CIO, CEO, etc.);

Focus the coverage on some sectors, which may enable the analyst to be an expert in that sector.



# Apple's price target raised at Morgan Stanley as higher ASPs should boost profits

Published: Sept 19, 2017 10:00 a.m. ET

Source: Market Watch

## adidas AG (FRA:ADS) Given a €215.00 Price Target at Royal Bank Of Canada

Posted by [Samantha Guardo](#) on Sep 23rd, 2017 // [No Comments](#)



Royal Bank Of Canada set a €215.00 (\$255.95) target price on adidas AG (FRA:ADS) in a report issued on Thursday, September 7th. The brokerage currently has a buy rating on the stock.

ADS has been the subject of a number of other reports. Independent Research GmbH set a €195.00 (\$232.14) price target on shares of adidas AG and gave the stock a neutral rating in a research note on Saturday, May 20th.

Source: Week Herald

# Analyst predicts more than 160 million Netflix subscribers in 3 years as global interest surges

The Netflix logo is displayed in a bold, red, sans-serif font.

- Piper Jaffray says Netflix could see as much as 42 percent year-over-year growth in its international subscriber base in the third quarter.
- Analyst Michael Olson predicts Netflix will have over 100 million international subscribers by 2020.
- Last quarter, Netflix crushed Wall Street's estimates, adding 5.2 million total members versus expectations of 3.23 million. Netflix is set to report third-quarter earnings in mid-October.

Thomas Franck | @tomwfranck

Published 9:50 AM ET Mon, 18 Sept 2017 | Updated 10:48 AM ET Mon, 18 Sept 2017



#BUSINESS NEWS SEPTEMBER 19, 2017 / 5:58 PM / 5 DAYS AGO

## Tesla shares fall from record high after warning from analyst

Jefferies analyst Philippe Houchois launched coverage of Tesla with an “underperform” rating, helping send shares of the company headed by entrepreneur billionaire Elon Musk down 2.17 percent to \$376.74 after closing at a record high the day before.



Source: Reuters

# Orange SA (ORA) Given a €17.50 Price Target at J P Morgan Chase & Co

Posted by Rob Logan on Sep 23rd, 2017 // No Comments

J P Morgan Chase & Co set a €17.50 (\$20.83) price objective on Orange SA (EPA:ORA) in a report published on Thursday, September 7th. The firm currently has a buy rating on the stock.



Source: The Ledger Gazette

# GM's price target raised at Morgan Stanley

By [Claudia Assis](#)

Published: Sept 21, 2017 12:29 p.m. ET

Analysts at Morgan Stanley on Thursday raised their price target on General Motors Co. [GM, +0.82%](#) stock, saying the car maker "has an opportunity to unlock hidden strategic value." The analysts set their target to \$43, from \$40, representing a 10% upside from Thursday prices. They rate the stock their equivalent of buy, and moved it to their No. 3 pick in autos, making GM their highest-ranked U.S. auto maker. GM is likely to host an investor day before the end of the year, where it would explain key strategic priorities, and the analysts expect it to focus on value, a strategy for shared autonomy, and the company's long-term goals in China, they said in a note. "We see GM moving in the direction of (Fiat Chrysler) and Sergio Marchionne's philosophy of taking action to unlock value and opening up to partnerships with external firms on applied AI in mobility," they said. GM shares gained 0.2% and are up nearly 12% so far this year, mirroring the S&P 500 Index's [SPX, +0.06%](#) gains in the same period.



Source: Market Watch

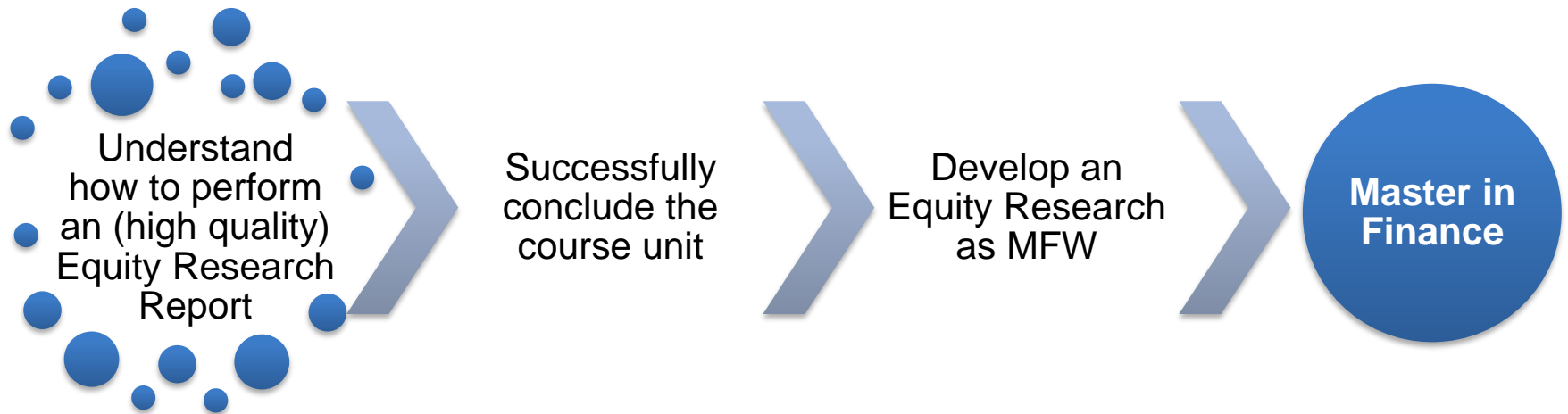
# 1

## Course Overview

EQUITY RESEARCH

# COURSE OVERVIEW

## Aims of the course unit





# COURSE OVERVIEW

- 1. Introduction and Preliminaries**
- 2. Equity Research Report: Overview, Application, and Processes**
- 3. Strategic Management and Industry Analysis**
- 4. Economics for Valuation**
- 5. Financial Analysis and Reporting**
- 6. Equity Valuation**

Research Methods for Equity Research?

# COURSE OVERVIEW: BIBLIOGRAPHY

## Mandatory Reading:

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

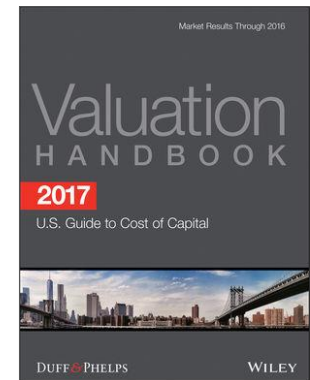
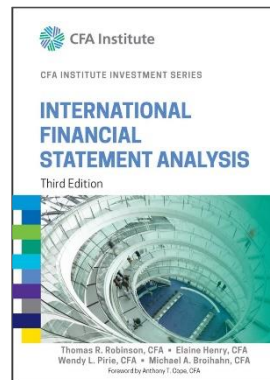
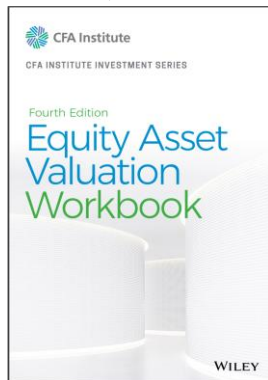
## Other Readings:

(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.

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



# COURSE OVERVIEW: BIBLIOGRAPHY

## Other Readings:

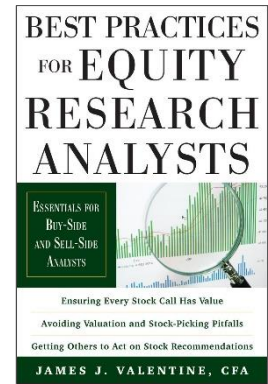
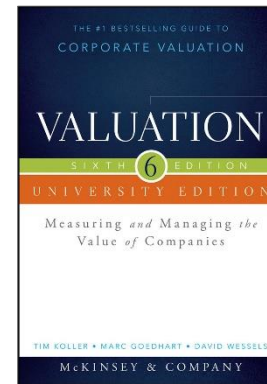
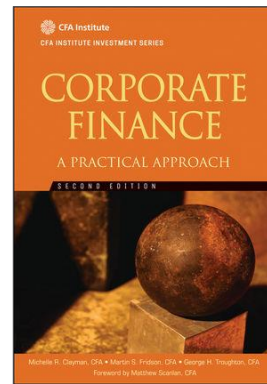
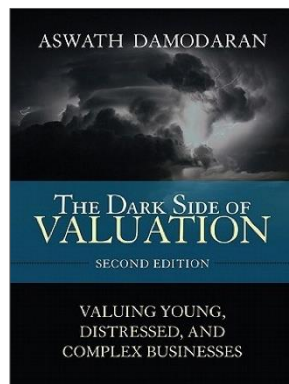
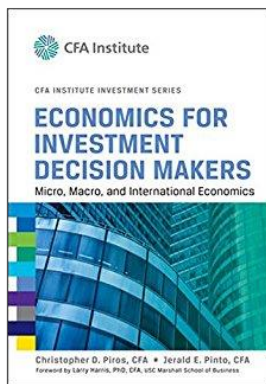
(ECO) Piros, C.; Pinto, J.; Harris, L. (2013), *Economics for Investment Decision Makers: Micro, Macro, and International Economics*. CFA Investment Series. John Wiley & Sons, Inc.

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.



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# Equity Research

SCOPE & CAREERS

# EQUITY RESEARCH: SCOPE

## What is Equity Research?



# EQUITY RESEARCH: SCOPE



# EQUITY RESEARCH: CAREERS

## Financial Advisory

*Preventing small leaks that sink great ships*

*#numbers #calculations #client facing #specialized knowledge #excel #corporate finance*




### Short Description

Financial advisory is a sub-segment of the Consulting industry. Firms operating in this market niche **offer highly specialized services.**




According to EY's CEO, "Consulting is a very broad and no longer particularly helpful term." He prefers to use the word "advisory", instead of "consulting", when his firm provides services, like **financial due diligence, financial forensics, valuation of equity stakes, risk management**, drafting of IPO prospectuses, calculating of transfer prices, and others.

These activities occur rarely in a company's life and require skills that regular companies do not have. Financial advisors can contribute with their expert knowledge and ability to adapt to a challenging environment. This is a **great school for entry-level finance practitioners**, as it provides them with a constantly changing environment and access to several different client realities.

### Your Background

-  Bachelor's Degree
-  Analytical Thinking
-  Interested in Corporate Finance




### Key Interview Questions

-  How would you value a company?
-  How many lightbulbs are there in Manhattan?
-  Would you say you are a detail-oriented person?

### What is it like

 <b>Entry-Level Compensation (*)</b>	<b>\$51k</b> Gross Annual Salary
 <b>Working Hours (*)</b>	<b>50-55 Hours</b> Working Hours per Week
 <b>Reputation (*)</b>	★★★★☆

### You will become good at

-  Microsoft Excel
-  Corporate Finance
-  Adapting to a changing environment

### The Tools You Will Need

MS Excel	● ● ● ● ●
Accounting & Financial Statement Analysis	● ● ● ● ●
MS PowerPoint	● ● ● ● ●

### Top Players



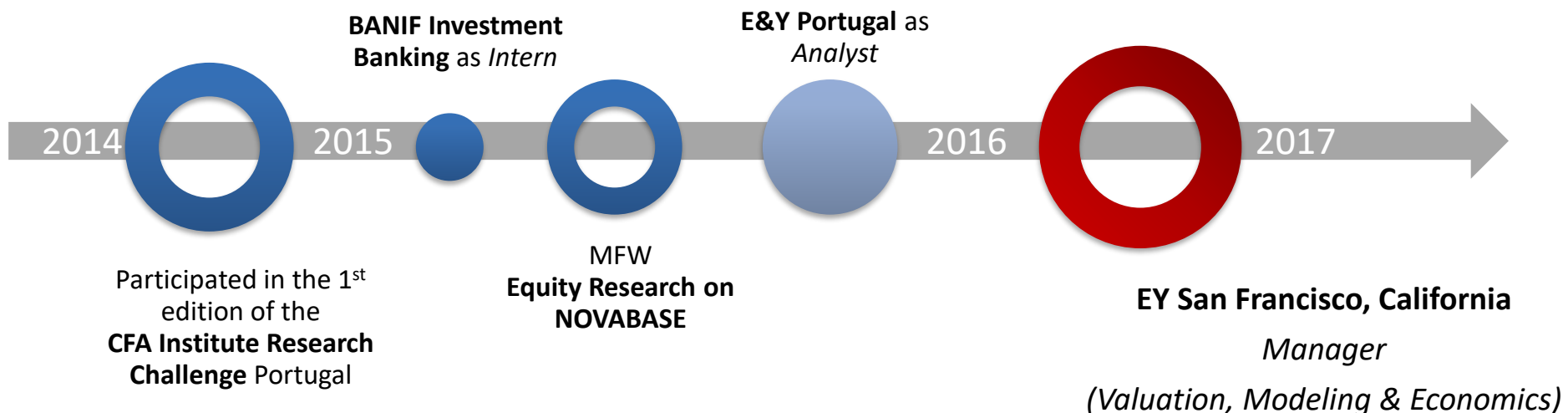
\* (1) The indicated entry-level compensations are before tax and excluding bonuses. (2) Working hours estimation has been carried out by considering the input of people working in the respective industry. However, these can vary significantly from Country to Country, Company to Company, and Manager to Manager. (3) We have assigned a reputation ranking based on our own research and perception.



# EQUITY RESEARCH: CAREERS

## Can you pursue a career in finance as a sell-side analyst after the Master in Finance?

*ISEG's Master in Finance alumni:*  
José Pinto de Abreu





# 3

## Master's Final Work

EQUITY RESEARCH

# EQUITY RESEARCH: MASTER'S FINAL WORK

## Equity Research

vs

## Dissertation

Time required:

Usually underestimated

=

Often underestimated

Initial uncertainty:

Which company to value?

<

Research Question?

Usage of previous work:

Industry Overview

=

Works from ECF

Scientific value:

Unlikely

<

Possible

Reputation for the job market:

Advisory, Asset Management,  
Risk management

?

Governmental Agencies,  
Regulators, Academy

Computer tools:

Excel

?

STATA, R, SPSS

Final grade:

Final work more comparable  
It is all about quality

?

It is all about quality

# EQUITY RESEARCH: MASTER'S FINAL WORK

## Equity Research (Project) vs Dissertation/Thesis?

An Equity Research **is not a 'shortcut'** to finish your Master!

You may think of EQR course unit as a 'blueprint'. After taking the course, students will have a deep understanding on how to perform each chapter.

**The first decision:** which company to value?

**Thereafter, main challenges are related to:**

- data availability to support valuation assumptions;

- forecast of financial statements (understand how the three main financial statements are connected);

- transpose the information in the Industry Overview & Competitive Positioning to assumptions.

- estimate parameters for the valuation

# EQUITY RESEARCH: MASTER'S FINAL WORK

## Equity Research: Calendar of Activities (my supervisions)

DEADLINE	TOPIC
ASAP	Research Proposal (define the target company)
EXAMS (First and Second Call)	
15 Feb 2021	Business Description
	Management and Corporate Governance
<b>08 Mar 2021</b>	<b>Industry Overview &amp;</b>
<b>05 Apr 2021</b>	<b>Competitive Positioning</b>
19 Apr 2021	Investment Risks: Description
24 May 2021	Forecasts: Financial Statements
14 Jun 2021	Valuation
30 Jun 2021	Financial Analysis
	Investment Risks: Risk Assessment
<b>31 Jul 2021</b>	<b>First Draft</b>
31 Aug 2021	Second Draft
20 Sep 2021	Third Draft (must be the final version!)

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# CFA Institute Research Challenge

EQUITY RESEARCH



# HOW DOES IT WORK?

## 2019 PARTICIPATION

- 6,100+ Students
  - 4,000+ Volunteers
  - 1,150+ Universities
  - 160 CFA Societies
  - 117 Local Challenges
  - 95 Countries
- 

It all starts with +1,150 universities worldwide.

From the 117 Local Challenges the winner qualifies for the Regional Finals. (exceptionally, 2 teams may qualify)

**ISEG** won the Portuguese Local Challenge and represented Portugal in the EMEA Regional **three times in a row!**

EMEA Regional: 8 groups, ~45 teams, group winner qualifies to the EMEA Regional Final.

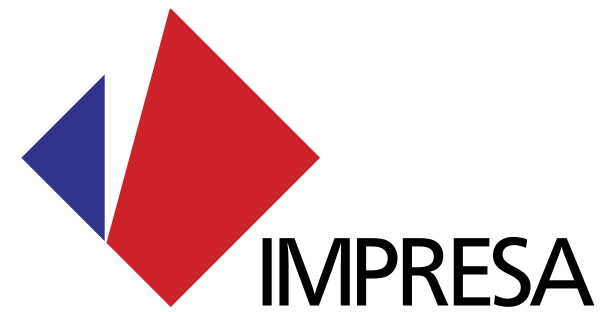
**ISEG** qualified to the EMEA Regional Final **two times in a row!**

In 2019 and 2020 we were VERY close at winning the EMEA Regional and going to the Global Final. We ranked 2<sup>nd</sup>...



In the Global Final, only 5 teams compete: 2 **North America** 2 **EMEA** 1 **Asia Pacific**

**1<sup>st</sup> Edition 2015: 2<sup>nd</sup> place**



José Pinto de Abreu  
Senior Associate | EY San Francisco, US

Maria Trindade Santos  
Consulting Analyst | Deloitte Portugal

Carolina Pedroso de Carvalho  
Senior Consultant | PwC Portugal

Victor Barros

Filipe Janeiro  
Asset Liability Management Office  
European Stability Mechanism, Luxembourg



**2<sup>nd</sup> Edition 2016: 2<sup>nd</sup> place (tied with 1<sup>st</sup> place)**



Fábio Ruano  
Senior Associate | PwC Portugal

João Leitão  
Assistant | BNP Paribas

Mary Anne Bolos  
Analyst | ARC, Metro Manila, Philippines

Carolina Garcia  
Tax & Customs Operator | Siemens

Tiago Botelho  
Financial Controller | EDP, Portugal

**3<sup>rd</sup> Edition 2017: 1<sup>st</sup> place**

(Portuguese representative in the EMEA finals in Prague, Czech Republic)



Benedikt Grundheber  
Senior Associate | KPMG Frankfurt

Catarina Trindade  
Associate | PwC Portugal

Bruno Fernandes  
Economist | CMVM, Portugal

Jéssica de Freitas  
Consultant | Neyond Portugal

Rúben Penela  
Analyst | Pöyry Capital Limited, UK



**4<sup>th</sup> Edition 2018: 1<sup>st</sup> place**

(Portuguese representative in the EMEA finals in Dublin, Ireland)

Qualified to the EMEA final amongst the top 4 teams



Katharine Cardwell  
@ Chicago, US



João Silva  
Assistant Associate | PwC Portugal

Joana Mendes  
Assistant Associate | PwC Portugal

Pedro Gomes  
Auditor | EY Portugal

Ricardo Duarte  
Audit Assistant | KPMG Portugal





## AMORIM

**5<sup>th</sup> Edition 2019: 1<sup>st</sup> place**

(Portuguese representative in the EMEA finals in Zurich, Switzerland)

Qualified to the EMEA final amongst the top 4 teams



Zarko Ljubenovic  
@ Antwerpen, Belgium

Joana Pina  
Associate | KPMG Portugal

Carolina Freitas  
Associate | KPMG Frankfurt

Ana Filipa Carreira  
Consultant | Neyond Portugal

Joana Chhotobhai  
Consultant | Neyond Portugal



**6<sup>th</sup> Edition 2020: 1<sup>st</sup> place**

(Portuguese representative in the EMEA finals in the Dead Sea Are, Jordan)  
Qualified to the EMEA final amongst the top 4 teams



Jorge Faria  
Economist, Banco de Portugal

Patrícia Ferreira  
Consultant | GALP

Arthur Quites  
Consultant | OECD / GALP

Margarida Alpalhão  
Financial Consultant | Microsoft

César Teixeira  
Consultant | GALP



**7<sup>th</sup> Edition 2020:** (kickoff soon...)

Are you going to be seated ... or do you want to be the next  
**ISEG** champ?





## 10 reasons why ISEG Lisbon

02

ISEG is a School of the University of Lisbon, a leading university as recognized by the selective Shanghai ranking (ARWU).

05

ISEG's high quality research centers are engaged in a diverse array of international research projects.

08

ISEG Masters' students and faculty win awards and recognition for best case studies, best dissertation and research output, and applied projects.

03

As part of the University of Lisbon, ISEG belongs to UNITEI - University Network for Innovation, Technology and Engineering - a network that aims to foster cooperation between higher education institutions in Europe.

06

ISEG has a large, diversified, global network of talented alumni.

09

ISEG is committed to the United Nation's Sustainable Development Goals (SDGs) for 2030.

01

ISEG is accredited by AACSB, a distinction earned by only 5% of business schools in the world.

04

ISEG is located in downtown Lisbon, a vibrant, multi-cultural, cosmopolitan, and sunny European city.

07

ISEG students are highly desirable to top employers in government, private industry, and higher education around the world.

10

ISEG students benefit from a collegiate and open-minded atmosphere with many opportunities to interact with their peers and with professors.

# Masters in Finance



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masters@iseg.ulisboa.pt

(+351) 213 925 900

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1200-675 Lisboa - Portugal

Open minds  
for a better world