



Course and Examination Fact Sheet: Autumn Semester 2017

7,123: Fundamental Corporate Valuation for active Investors

ECTS credits: 3

Overview examination/s

(binding regulations see below)

Decentral - Written examination (100%, 90 mins.)

Attached courses

Timetable -- Language -- Lecturer

[7,123,1.00 Fundamental Corporate Valuation for active Investors](#) -- Englisch -- [Kustner Clemens](#)

Course information

Course prerequisites

The course requires a good basic knowledge of financial accounting (to the level of an introductory core course) and of finance (a core course in investments and/or corporate finance)

Course content

Course Content:

With a stock market bubble and a financial crisis in our recent history, there have been increasing calls to “return to fundamentals.” This is a course on advanced valuation topics with a particular focus on fundamental analysis. The course does not “assume market efficiency.” Rather, it develops the techniques for challenging traded prices (in public markets and M&A markets) in order to assess whether investments are appropriately priced. It adopts the philosophy that one of the key risks in investing (both in M&A and asset management) is the risk of paying too much (or selling too cheap). The course is one for the “active investor”.

The course first develops the idea that corporate valuation is ultimately linked to value generation in a firm. The analyst must understand how corporates create value, how this value creation is reflected in financial statements, and how to use prospective financial statements to forecast future value generation. We will see that valuation is really a matter of appropriate accounting for value.

Subsequently, the course lays out the architecture of a competent valuation technology. We analyse valuation technologies based on forecasting cash flows in the cash flow statement (dividend discount model, discounted cash flow model) but will find out that these techniques prove to be unsatisfactory, for the simple reason that cash flows do not capture value added in a business. We then explore if accrual accounting based models, in particular the residual income model and the abnormal earnings growth model (also called Ohlson-Juettner model), can help to remedy these deficiencies. Overall, the aim is to provoke your thinking as to what a good valuation technology looks like.

In the next step we focus on forecasting, which is at the heart of corporate valuation and which leads to a valuation of the firm,



its equity, and its strategies. We develop forecasting gradually, so that you can see the building blocks, and will eventually develop a comprehensive scheme for forecasting, valuation and strategy analysis.

In a last step we focus on converting forecasts to a valuation. We will also explore how the valuation models discussed can be used to challenge observable market prices and to screen the market for undervalued and overvalued stocks and investment opportunities.

The course has a very practical focus. The methods of fundamental analysis will be examined in detail and applied in cases and projects involving listed companies. The primary emphasis is on equity (share) valuation, with a focus on developing and applying methods for valuing firms using financial statement analysis.

The course will be taught from the perspective of designing techniques to be used in an (independent) equity research department or any corporate transaction situation. The material covered in the course is relevant to the corporate financial analyst for evaluating acquisitions, restructurings and other investments as well as the security analysts who must issue a buy, hold or sell recommendations on stocks. By the end of the course, the student should feel competent in writing a thorough, credible corporate valuation report, research report or investment analysis that meets the highest standards of professionalism.

The course is of interest to those contemplating careers in investment banking (particularly in equity research and M&A), security analysis, consulting, public accounting, and corporate finance. And it will also help with personal investing.

By the end of the course students should have answers to the following questions:

- What are the most robust fundamental valuation technologies to estimate fundamental values (or “intrinsic values”) and how are they applied?
- How to challenge market prices to identify undervalued or overvalued stocks?
- What determines a firm's P/E ratio? How does one calculate what the (fair) P/E should be?
- What determines a firm's market-to-book (P/B) ratio? How does one calculate what (fair) the P/B should be?
- What is the relevance of cash-flows? Of dividends? Of earnings? Of book values?
- How are business-strategies analysed in order to understand the value they create?
- What is growth? How does one analyse growth? How does one value a growth firm?
- How does profitability tie into valuation?
- How does a robust scheme for forecasting look like with forecasting being at the heart of corporate valuation?
- What is the most robust valuation technology to value virtually any business?
- How does one evaluate risk? For equity? For debt?
- How does one evaluate an equity research report?
- How does one trade on fundamental information?

Course structure

The course comprises six modules and aims to cover the following topics:

Session – Topics – Chapters in Penman (2013)

1 - Introduction to Investing and Financial Statements; Discounted Cash Flows Valuation Model; Residual Earnings Valuation Model – Chapters 1-5

2 - The Earnings Growth Valuation Model; Analysis Template, Statement of Shareholders' Equity – Chapters 6, 8 and 9

3 – Analysis of Balance Sheet and Income Statement – Chapters 9 and 10

4 – Analysis of Profitability and Growth – Chapters 12 and 13



5 – Valuation of Operations and Enterprise Multiples – Chapters 14

6 – Forecasting and Valuation Analysis – Chapters 15 and 16

Course literature

Mandatory Course Book: Stephen Penman's book *Financial Statement Analysis and Security Valuation* (5th edition)

Additional course information

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Examination information

Examination sub part/s

1. Examination sub part (1/1)

Examination time and form

Decentral - Written examination (100%, 90 mins.)

Remark

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Examination-aid rule

Open Book

Students are free to choose aids but will have to comply with the following restrictions:

- At such examinations, all the pocket calculators of the Texas Instruments **TI-30 series** are admissible. Any other pocket calculator models are inadmissible.
- In addition, any type of communication, as well as any electronic devices that can be programmed and are capable of communication such as electronic dictionaries, notebooks, tablets, PDAs, mobile telephones and others, are inadmissible.
- Students are themselves responsible for the procurement of examination aids.

Supplementary aids

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Examination languages

Question language: English

Answer language: English

Examination content

All topics discussed in class.

Penman (2013), *Financial Statement Analysis and Security Valuation*, Chapters 1-5, 6-10, 12-16

Examination relevant literature

Stephen Penman's book *Financial Statement Analysis and Security Valuation* (5th edition); chapters as stated above.

All other handouts and course materials.

Please note

We would like to point out to you that this fact sheet has absolute priority over other information such as StudyNet, faculty members' personal databases, information provided in lectures, etc.

When will the fact sheets become binding?

- Information about courses and examination time (central/decentral and grading form): from the start of the bidding process on 24 August 2017
- Information about decentral examinations (examination-aid rule, examination content, examination relevant literature): after the 4th semester week on 16 October 2017
- Information about central examinations (examination-aid rule, examination content, examination relevant literature): from the start of the enrolment period for the examinations on 06 November 2017

Please look at the fact sheet once more after these deadlines have expired.