



Course and Examination Fact Sheet: Autumn Semester 2020

7,123: Fundamental Corporate Valuation for active Investors

ECTS credits: 3

Overview examination/s

(binding regulations see below)

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

Examination time: inter-term break

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)

Learning objectives

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 analyzed in order to understand the value they create?

What is growth? How does one analyze 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 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.

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



It is planned to hold lectures with theoretical content via zoom and exercises, which will take place on site in face-to-face sessions, divided into two groups. Information about this will be provided at the beginning of the semester.

In particular, in the case of the President's Board having to implement new directives due to the SARS-CoV-2 pandemic in AS2020, the course information listed above will be changed as follows:

- The course is conducted online via the platform Zoom;
- The recordings of the course are available for 30 days;
- The lecturer informs via StudyNet or e-mail on the changed implementation modalities of the course;
- Course content might be adjusted to account for the then prevailing circumstances.

The examination information listed below would be changed as follows:

There are no changes necessary to the examination information.

Examination information

Examination sub part/s

1. Examination sub part (1/1)

Examination time and form

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

Examination time: inter-term break

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:

- All the pocket calculators that are not of the Texas Instruments TI-30 series are explicitly 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, 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

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

Materials made available on Studynet until 29th of November 2020

All topics discussed in class.

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

Please note that only this fact sheet and the examination schedule published at the time of bidding are binding and takes precedence over other information, such as information on StudyNet (Canvas), on lecturers' websites and information in lectures etc.

Any references and links to third-party content within the fact sheet are only of a supplementary, informative nature and lie outside the area of responsibility of the University of St.Gallen.

Documents and materials are only relevant for central examinations if they are available by the end of the lecture period (CW51) at the latest. In the case of centrally organised mid-term examinations, the documents and materials up to CW 42 are relevant for testing.

Binding nature of the fact sheets:

- Course information as well as examination date (organised centrally/decentrally) and form of examination: from bidding start in CW 34 (Thursday, 20 August 2020);
- Examination information (regulations on aids, examination contents, examination literature) for decentralised examinations: in CW 42 (Monday, 12 October 2020);
- Examination information (regulations on aids, examination contents, examination literature) for centrally organised mid-term examinations: in CW 42 (Monday, 12 October 2020);
- Examination information (regulations on aids, examination contents, examination literature) for centrally organised examinations: two weeks before the end of the registration period in CW 44 (Thursday, 29 October 2020).