

# Equity Analysis FN 451

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## **-Role of an equity analyst**

### Fundamental analysis:

- Approach of fundamental analysis & assets allocation
  - Economic, industry and firm analysis and financial forecast

### Valuation Technique:

- Fundamental of assets valuation
  - Dividend discount model
  - Discounted cash flow model
    - Market multiples
- Workshop: Equity research report writing and analyst presentation technique
- Banking sector analysis



# Role of an Equity Analyst

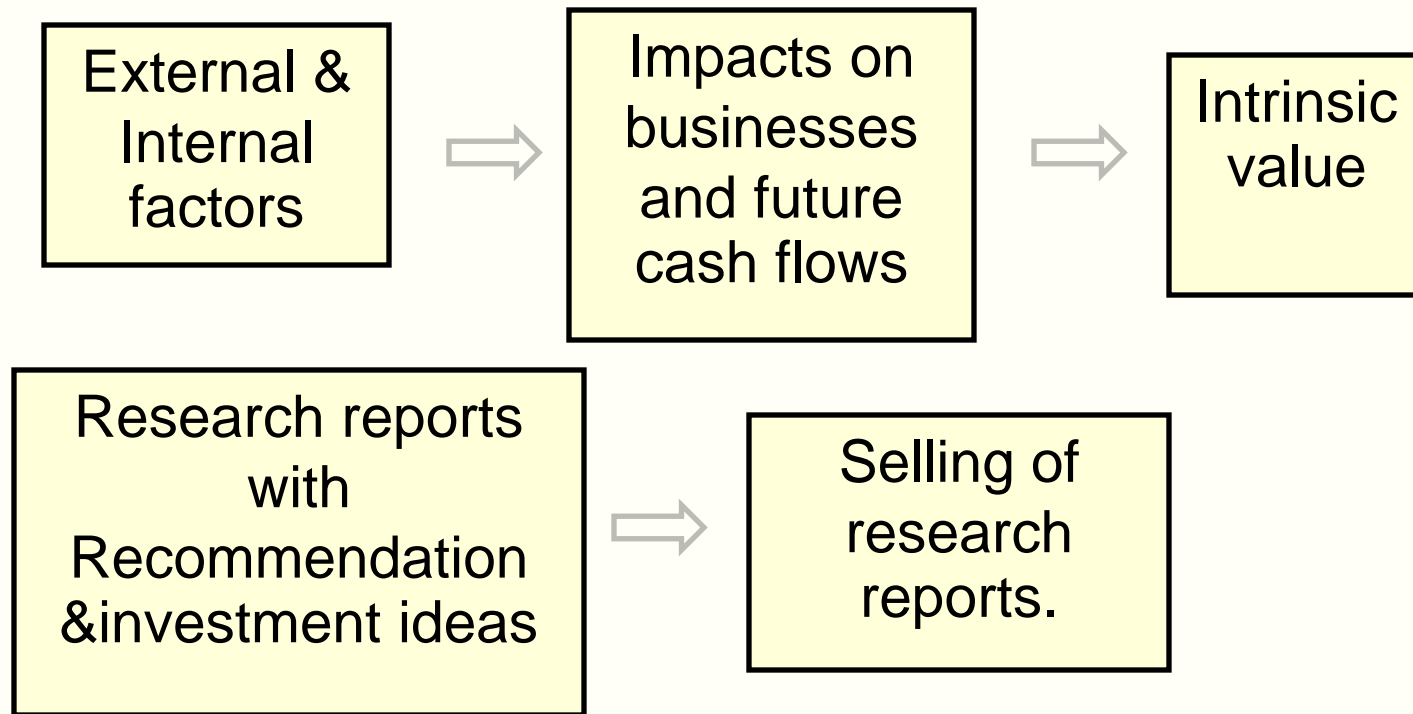
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# Role of an equity analyst

The aim of equity analysis is to find the **equilibrium value (intrinsic value)** of equity (i.e. the equilibrium value of common share) and give an investment recommendation



# An equity analyst's job...

What define good analysts?

What define good equity research reports?



# Clients' satisfaction...



# You need to know their demand

- Internal clients?...
- External clients?...



# “To make profit”

- Salesperson
  - Right investment recommendation
  - Clear and convincing reasons
- Investors
  - Increase their wealth



# When you write an equity research report.....

- Always keep in mind
  - Clear investment recommendation
  - Clear, logical and convincing reasons
- What you suggest investors to do and why

How to do it?...



# How to do it?

- Enough information
- Right analysis
- Effective presentation

How to do it?



# Equity analyst job

- Information gathering
- Ideas generation, forecast and valuation
- Presenting of investment ideas



# Information gathering

- You must stay on top of everything that impact the companies and industries you follow
- Look at business websites, newswire, newspaper
- Visit companies, participate conferences



# Don't miss and do it quick

- Morning brief 7.45 to 8.00
- Time constraint: Have information and models well organized and ready for usage
- About 25% of analysts' time



# Initiating Investment Ideas

- Visit companies and participate conferences
- Analyze, Initiating investment ideas
- Sell your ideas
- The remaining 75% of time



# Company Visit

- Not only good relationship with clients, but companies' management
- Investor relation (IR)
- CFO, President



# Prepare for a Company Visit

- Study the company's basic information
  - Should not ask the company
  - Can be obtained from 56-1
- Study of recent developments
  - Can be studied from SET
  - Focus on impacts
- Listing of questions



# What to ask?

- Forward thinking: Think ahead of future outcomes.....
- Business plans and how management expects them to impact the company's future earnings  
(Example BGH)
- Possible causes that can trigger fundamental changes
  - Efficient market



# Ideas that can lead to abnormal return

- Fundamental change
- You are the first to find out and can convince it.....

(Example TCAP)



# Analysis

Information

Investment  
ideas

Assumptions

Forecast

Valuation



# Key assumptions

- Focus on the ones that give major impacts on profitability
- Ignore minor ones



# How to make assumptions?

- Repeat historical patterns only if there are no fundamental changes
- Accompany fundamental change into assumptions and forecasts.....
- Translate forecasts into valuation...

(Example TICON)



# Steps in forecast and valuation

- Explore all the external and company's internal factors that impact the company
- Translate those factors into assumptions
- Link the assumptions into financial forecast
- Translate forecasts into valuation
- Sensitivity analysis.....

(Example TICON, CPALL)



# Presenting investment ideas

- Written: Equity research report
- Verbal: Analyst road show



# A good research report

- Clear and convincing
- What do you want investors to do and reasons support
- New ideas that can trigger fundamental changes
- What investors may question
- Include the investment ideas and analysis that back up your investment recommendation as well as risk... ..
- Include numbers or forecasts to make it reliable, but don't be too detailed.....



# A good presentation

- What are three most important ideas?
  - Convince them to yourselves first
- Clear and concise
- Include numbers or forecasts to make it reliable, but don't be too detailed

(Example TICON)



# R1: Basic Knowledge on Equity Valuation

(self-study for quiz I)



# What is Value?

- Intrinsic value and Market Value
- Possible sources of perceived mispricing
- Alpha return
- Going-Concern Value and Liquidation Value
- Fair Market Value and Investment Value



# Valuation Model

- Absolute Valuation Models
- Relative Valuation Models
- Converting Forecasts to a Valuation

