

Equity Analysis FN 451

-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

Equity research report writing and analyst presentation technique

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Research Paper Basic Content – Full Report...

- Key Investment Points
- Business Description
- Industry Overview and Competitive Positioning
- Investment Summary
- Valuation
- Sensitivity Analysis
- Peers Comparison
- Financial Analysis
- Investment Risks

Writing Style: Clear and Meaningful

Topic sentence: What you want readers to take notice.....

- ✓ Short and specific
- ✓ Avoid general statement
- ✓ Key idea of what you want to say about the paragraph

Paragraph content: Clear, convince, concise

- ✓ Specific statement
- ✓ Avoid general statement.....
- ✓ Avoid replicated sentence.....
- ✓ Avoid long, complicated sentence
- ✓ Forward looking statement
- ✓ Cite data, evidence

Key Investment Points & Investment summary

Always think about what you suggest investors to do and why.....

- ✓ Clear investment recommendation
- ✓ Clear, logical and convincing reasons

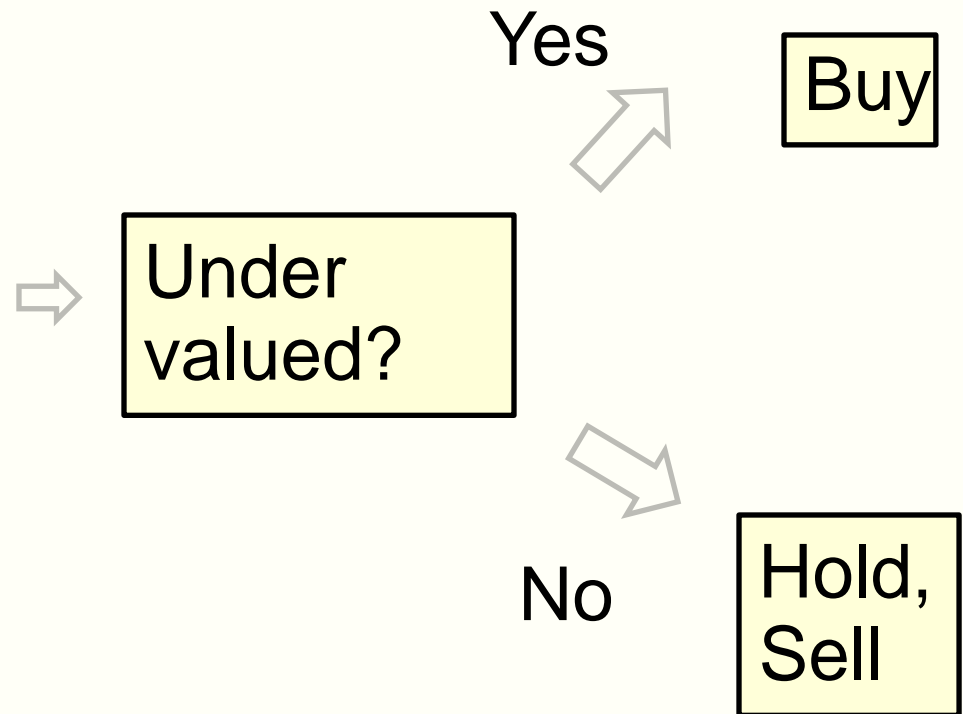
Should concentrate on:

- ✓ What do you want investors to do and why?
- ✓ Include the investment ideas and analysis that back up your investment recommendation
- ✓ New ideas that can trigger fundamental changes
- ✓ What investors may question
- ✓ Include risks and catalysts for changes.....

Key Investment Points & Investment summary

The kinds of stocks investors are looking for

- ✓ High growth
- ✓ High ROE
- ✓ Turnaround play
- ✓ M&A play
- ✓ Dividend play
- ✓ Asset play.....



(Example KK)

Business description

Aim to give investors an idea on how interesting the company is

- ✓ Company's products / services
- ✓ Key drivers for revenues
- ✓ Customers / markets
- ✓ (If available) Raw materials, key cost components
- ✓ (If applicable) Management, primary strategy, shareholders
- ✓ (If applicable) Recent developments, expansions, new products

Industry overview and competitive Positioning

Macro economic analysis

You should try to think about these following issues:

- ✓ The current stage of the economy & outlook; Key drivers for the economic growth; Monetary policy & fiscal policy in relation to the current stage of the economy and outlook.....
- ✓ How do the economic cycle, monetary policy and fiscal policy affect the company?
 - ✓ What key economic indicators that impact business of the company?
 - ✓ What are the outlook of those indicators and possible impacts on the company?

Industry overview and competitive Positioning

Industry overview

- ✓ What is the industry life cycle? How does growth looks like? Any seasonality?
- ✓ Industry situation in the recent years
- ✓ (if applicable) Regulatory, tax condition, labor condition, importance of R&D and technological developments

Competitive positioning.....

- ✓ Market players; Positioning/ranking of competitors compared to the company
- ✓ The company's key competitive edge: Factors that makes the company gain/lose competitive edge, such as product differentiation, bargaining power with suppliers, bargaining power with customers
- ✓ Risks: Vulnerability to external shock, threats of new entrants / substitute products

Valuation

- ✓ Identify which is the best valuation method that you choose
- ✓ Clearly state the fair value. Can round up decimal point
- ✓ If fair value is based on a discounted cash flow model, you can also add on what P/E ratio, P/BV ratio and the dividend yield that the fair value represent. These ratios are more understandable
- ✓ Clearly state key assumptions for the valuation model, especially the discount rate, dividend forecast and growth forecast, as well as key assumptions for the forecasts. You can also state whether you are aggressive, moderate or conservative on the assumptions applied
- ✓ Other supplemental valuation can be presented, but fair value should not be based on average fair value from different valuation methods

(Example BGH)

Sensitivity Analysis

- ✓ Should be conducted to see how sensitive of the forecasts and valuation to changes in key assumptions
 - ✓ Sensitivity of the forecasts and valuation to changes in key assumptions driving the forecasts
 - ✓ Sensitivity of the valuation to changes in discount rate and growth forecast

- ✓ The higher the sensitivity, the more attention is needed to be paid on the assumptions

(Example

TICON)

Financial Analysis

- ✓ What investors like to look at?
 - ✓ Trend
 - ✓ Growth rate
 - ✓ Spread margin
 - ✓ Risk
 - ✓ Return

Investment Risks

- ✓ Think about possible risks factor that can make the actual result to deviate from the forecast
- ✓ Be specific, avoid general statement
- ✓ Best if can quantify the impacts of the identified risk factors on the bottom line and valuation