EF4314: CORPORATE VALUATION

Effective Term
Semester A 2022/23

Part I Course Overview

Course Title
Corporate Valuation

Subject Code
EF - Economics and Finance

Course Number
4314

Academic Unit
Economics and Finance (EF)

College/School
College of Business (CB)

Course Duration
One Semester

Credit Units
3

Level
B1, B2, B3, B4 - Bachelor's Degree

Medium of Instruction
English

Medium of Assessment
English

Prerequisites
FB2100/CB2100 Accounting I or CB2100 Introduction to Financial Accounting AND
FB3410 Financial Management or CB3410 Financial Management

Precursors
Nil

Equivalent Courses
Nil

Exclusive Courses
Nil

Part II Course Details

Abstract

This course aims to provide students with advanced level training in analyzing corporate fundamentals with emphasis on financial statement analysis and security valuation. The coursework and final examinations will assure students' understanding of the various valuation models and theories. The group projects and in-class discussions will help students to discover and innovate by applying valuation techniques to practical issues. Students are encouraged to perform financial statement analysis and valuation on real firms and compare results with those from the databases and/or media reports. Through these activities, students will also be able to comprehend the difficulties and limitations of valuation, and strengthen their discovery skills on examining factors affecting valuation of firms.

Course Intended Learning Outcomes (CILOs)

	CILOs	Weighting (if app.)	DEC-A1	DEC-A2	DEC-A3
1	Identify various types of business activities and describe their reporting in financial statements	15	x	x	
2	Reformulate published financial statements to facilitate valuationEvaluate the quality of corporate financial statementsComprehend the issue of accounting quality and the convergence of international financial reporting	25	x	x	x
3	Price firms/projects with various valuation technologiesEvaluate the performance and the value of a company based on its financial statements. Assess the off-balance sheet risk items in an international setting (e.g., related to gains/losses due to exchange rates and derivatives price movements) and their effect on firm performance; Comprehend the differences in equity valuation indifferent financial markets	50	x	x	x
4	Evaluate the pros and cons of various technologies and comprehend the limitations of valuation	10	x	x	x

A1: Attitude
Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.

A2: Ability
Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to real-life problems.

A3: Accomplishments
Demonstrate accomplishment of discovery/innovation/creativity through producing /constructing creative works/new artefacts, effective solutions to real-life problems or new processes.

Teaching and Learning Activities (TLAs)

	TLAs	Brief Description	CILO No.	Hours/week (if applicable)
1	Lectures and in-class discussion	Students are encouraged to think critically and logically and would be asked to respond to questions. Additionally students should be encouraged to solve them. In class, discussions are highly encouraged as it will enhance students' communication skills, critical thinking and develop students' creative and innovative abilities. The discussions will also cover current news events relevant to corporate valuations. Students need to critically analyze them from different perspectives, and to discover the issues on valuation.	2, 3	3 hours seminar and student self study

| 2 | Group Project and presentation | Group projects may take the form of case study or essay writing. Students are required to read the financial reports of the assigned companies and perform valuation analysis. Students are expected to discover and learn to handle the technical and practical issues involved in valuation. From the group projects, students will acquire practical skills including:
1. Interpreting financial reports, including notes to accounts
2. Reformulating the financial statements and form a good understanding of company operations
3. Obtaining analyst earnings forecast from the databases, financial media, and other sources
4. Estimating the cost of capital and use it in valuation.
Students will also be able to discuss the limitations and difficulties of valuation, and to comprehend the incentive problems of analysts (e.g., conflicts of interests, the herding behaviour). | 2, 3 | |
| 3 | Individual assignments | The assignments include basic model calculation and financial report analysis, which enable students to acquire a deeper understanding and develop good financial analysis skills. | 1, 2, 3, 4 | |

Assessment Tasks / Activities (ATs)

	ATs	CILO No.	Weighting (%)	Remarks (e.g. Parameter for GenAI use)
1	Individual assignments	1, 2, 3, 4	10	
2	Group Project and presentation	1, 2, 3, 4	30	

Continuous Assessment (%)

40

Examination (%)

60

Examination Duration (Hours)

2.5

Additional Information for ATs

Students are required to pass both coursework and examination components in order to pass the course.

Assessment Rubrics (AR)

Assessment Task

Final examination (2.5 hour exam)

Criterion

1. Ability to present material in a logical manner
2. Ability to correctly compute financial ratios
3. Ability to identify why a firm performs well

Excellent (A+, A, A-)

Outstanding

Good (B+, B, B-)

High

Fair (C+, C, C-)

Moderate

Marginal (D)

Basic

Failure (F)

Not reaching marginal level

Assessment Task

Individual assignments

Criterion

Ability to apply class material to assigned problems

Excellent (A+, A, A-)

Outstanding

Good (B+, B, B-)

High

Fair (C+, C, C-)

Moderate

Marginal (D)

Basic

Failure (F)

Not reaching marginal level

Assessment Task

Group Project and presentation

Criterion

Ability to demonstrate critical understanding ofthe course material

Excellent (A+, A, A-)

Outstanding

Good (B+, B, B-)

High

Fair (C+, C, C-)

Moderate

Marginal (D)

Basic

Failure (F)

Not reaching marginal level

Part III Other Information

Keyword Syllabus

1. Introduction to investing and valuation
2. Business activities and financial statements
3. Historical cost accounting, Mark-to-market accounting, fair value accounting
4. Dividend discount valuation
5. Discounted free cash flow valuation
6. The residual earnings (RE) valuation model
7. The abnormal earnings growth (AEG) valuation model
8. The residual operating income (ReOI) valuation
9. Dirty-surplus accounting and comprehensive income
10. Hidden dirty-surplus accounting losses relating to employees stock options
11. The reformulation and analysis of the statement of shareholders' equity
12. The reformulation and analysis of Balance sheet and income statement
13. The reformulation and analysis of Cash flow statement
14. Earnings quality

Reading List

Compulsory Readings

	Title
1	Stephen Penman, Financial Statement Analysis and Security Valuation (McGraw Hill, current edition)

Additional Readings

	Title
1	Lecture notes, newspaper clippings and selected articles from Journal of Finance, Financial Analyst Journal, Review of Accounting Studies and other sources. In particular, the following articles are very useful for you to gain an overall picture of this course. - Nissim, D. and Penman, S.H., 2001, Ratio Analysis and Equity Valuation: from Research to Practice, Review of Accounting Studies 6: pp.109-154. - Lee, C.M.C and Swaminathan, B., 1999, Valuing the Dow: A Bottom-Up Approach, Financial Analysts Journals 55, pp.4-23.
2	Stowe, J.D., Robinson, T.R., Pinto, J.E., and McLeavey, D.W., 2002, Analysis of Equity Investments: Valuation, AIMR Publishing, Chartered Financial Analyst (CFA) Examinaiton study text.
3	Koller, T., Goedhart, M., and Wessels, D. Valuation: Measuring and Managing the Value of Companies, McKinsey & Company Inc., 4th Edition, 2004.