

FINM7401 Finance

Semester 1, 2022

Individual Project

Assignment Due: 23rd May 2022 at 2:00pm (Brisbane Time). Submit electronically through Blackboard and Turnitin.

Overview: The objective of this individual assignment is to assess students' ability to use discounted cash flow method to value the equity of a public company. You will need to choose a company listed in the top 200 of the Australian Securities Exchange (ASX) that satisfies the following requirements:

- 1) The company is from a non-financial industry.
- 2) The company has a positive *Basic Earnings per Share* (EPS) for the past three fiscal years.
- 3) The company's dividend payout ratio (DPR) is a positive value smaller than 100% at the end of the fiscal year 2021. You need to calculate the DPR using the *Dividend per Share* on *Basic EPS*.

You will need to gather all the necessary financial data either through the financial websites or databases (see useful resources below) within UQ to attempt a set of questions presented below. The total marks are 100 and count towards 30% of your final grade.

Useful Resources:

Capital IQ provides a wealth of financial data about listed companies with an array of tools for analysis, ideation, and efficiency. Please sign up for a login using your @student.uq.edu.au email address at: <https://www.capitaliq.com/ciqdotnet/login.aspx>. Click on "New User" to register.

ASSIGNMENT QUESTIONS

Fundamental Analysis for the Financial Year 2021:

(90 marks)

- 1) Provide a description on the business of your selected public listed company. Prepare a SWOT analysis in identifying the **Strengths, Weaknesses, Opportunities, and Threats** for your selected company relative to its competitor within the same industry based on the current Australian economy and financial landscape. **[10 marks]**
- 2) Estimate the growth of the firm using the following three approaches. **[10 marks]**
 - Historical geometric growth rate
 - You may select the length of the horizon.
 - Analyst's consensus estimates of future earnings and growth
 - Based on analyst recommendations report.
 - Fundamental analysis
 - Retention ratio * Return on equity (ROE)
- 3) Calculate weighted actual growth based on the three approaches above. **[5 marks]**
 - Combine the above estimates in any way you feel appropriate. In making your choice, emphasize the advantages and disadvantages of each approach and how that led to your weighting of estimates.
 - Discuss how long you might expect this growth rate to persist and what you expect the growth rate to be thereafter.
- 4) Compute the cost of equity using the capital asset pricing model (CAPM). Compute the cost of debt based on the yield to maturity (YTM) of the long-term corporate bonds. **[10 marks]**
- 5) Compute the weighted average cost of capital (WACC). Assume corporate tax rate of 30%. **[5 marks]**
- 6) Use dividend-discount model (DDM) to estimate the price per share of your selected company. **[10 marks]**
- 7) Compare your valuation based on DDM to the current market value. Provide some explanations why your valuation differs from market valuation (if it does differ). Discuss the limitation of the DDM analysis. **[15 marks]**
- 8) What would the estimate of growth rate in the DDM model have to be in order for your valuation in question (6) to be closely aligned with the market valuation? Is the estimate realistic? Discuss. **[15 marks]**
- 9) Provide an assessment on your selected company in terms of its valuation relative to its competitor (at least two companies) within the same industry. Comparison can be done using valuation multiples as discussed in the lecture. In your capacity as an analyst, would you recommend investors buying/selling your selected company and explain why? **[10 marks]**

Assessment:**(10 marks)**

- The purpose of this project is to give you a preliminary feel for fundamental analysis.
- Do not worry if your estimates differ a lot from the actual price as we often make assumption. Results are often very sensitive to different assumptions that are being made.
- It is very easy to input pre-existing estimates into certain valuation models to arrive with the valuation of your selected company. I am not particularly interested in the inputs but rather the reasoning that led you to the inputs.
- Therefore, it is very critical for you to demonstrate your own thinking and justify your workings and your final valuation. Whenever possible, discuss how you estimate all the inputs needed for the calculation.
- Note that **10 marks** will be awarded for clear presentation and writing.

Submission:**Excel:**

Your Excel file should include all workings and calculations for each question. Formulas for the calculations should have cell references wherever possible. If you have computed a number incorrectly and just typed that number into the spreadsheet (or typed a formula using numbers when cell references could have been used), you will not receive partial credit for any portion of your computation that is correct.

Written Report:

Please provide a written report (not exceeding 2,500 words). The report should provide answers to questions specified above. This includes a detailed calculation of all results, discussion of assumptions made, justification of estimates relative to market value and its limitation, discussion of the sensitivity analysis, and assessment of selected company relative to its competitors. Please provide references where appropriate. References are not included in the word count.

Note: Attach the coversheet as the first page of your written report. Please also make sure to have the full name and student number on the first tab of the Excel file.

Final Submission:

You should submit the entire assignment by attaching TWO files as follow:

- PDF written report and Excel spreadsheet on **Blackboard Submission (Submit HERE)** link. When you save your assignment, name it with the course code together with your full name and student number. For example, “FINM7401_Cai_Xu_s45288888.pdf” and “FINM7401_Cai_Xu_s45288888.xlsx”;
- PDF written report on **Individual Project Turnitin Submission** link. Please name file as “FINM7401_Cai_Xu_s45288888.pdf” and such written report will be cross-checked for potential plagiarism. **Note that you *do not* submit Excel spreadsheet here.**

You may re-submit as many as you like, but only your last submission will be graded.