

CFAspace

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Academy of Professional Finance 专业金融学院

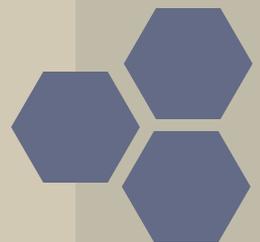


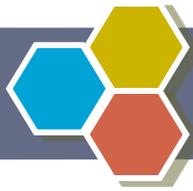
CFA Level II

Equity Investments

Introduction

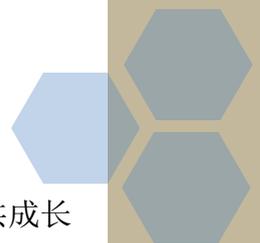
CFA Lecturer: Hillary Wang

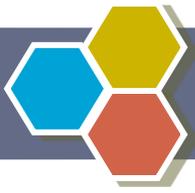




Weightings of CFA Level II exam topics

Topic Area	Level II
Ethical and Professional Standards (total)	10
Investment Tools (total)	30-60
Corporate Finance	5-15
Economics	5-10
Financial Reporting and Analysis	15-25
Quantitative Methods	5-10
Asset Classes (total)	35-75
Alternative Investments	5-15
Derivatives	5-15
Equity Investments	20-30
Fixed Income	5-15
Portfolio Management and Wealth Planning (total)	5-15
Total	100





Brief introduction of Covered Topics

❖ Equity Valuation Application and Processes

Valuation, intrinsic value, sources of mispricing

Going concern assumption, liquidation value

Different definitions of value

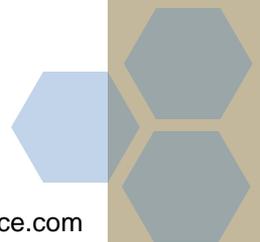
Applications of equity valuation

Industry and competitive analysis

Absolute and relative valuation models

Sum-of-the-parts valuation, conglomerate discount

Criteria in choosing valuation approach





Brief introduction of Covered Topics

❖ Return Concepts

Realized holding period return, expected HPR, required return, return from convergence of price to intrinsic value, discount rate, and internal rate of return.

Equity risk premium based on historical and forward-looking models

CAPM, Fama-French model, Pastor-Stambaugh model, macroeconomic multifactor models and the build-up method.

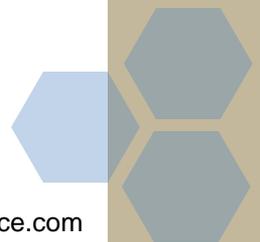
Beta estimations for different types of companies

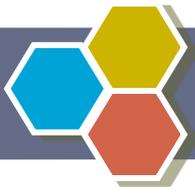
Strengths and weaknesses of different pricing models

International considerations in required return estimation

WACC

Determine the appropriate discount rate





Brief introduction of Covered Topics

❖ The Five Competitive Forces That Shape Strategy

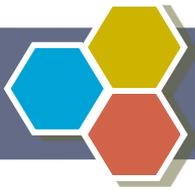
Five competitive forces and their impact on industry profitability

Industry growth rate, technology and innovation, government and complementary products and services

Changes in industry structure and their possible effects on industry's profit potential

How to gain competitive advantages by positioning a company, exploiting industry change, and shaping industry structure





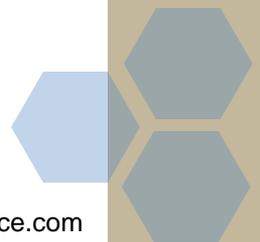
Brief introduction of Covered Topics

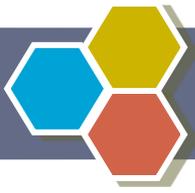
❖ Your Strategy Needs a Strategy

Predictability and malleability as factors in assessing an industry

How are they expected to affect the choice of an appropriate corporate strategy

Evaluate the predictability and malleability of an industry and select an appropriate strategy





Brief introduction of Covered Topics

❖ Industry and Company Analysis

Top-down, bottom-up, hybrid approaches

Growth relative to GDP growth, and market growth and market share

Use operating margins and sales levels to determine whether economies of scale exists

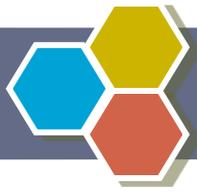
Cost of goods sold, selling general and administrative costs, financing costs, and income taxes

Balance sheet modeling

Relationship between return on invested capital and competitive advantage

Application of Porter's five forces analysis





Brief introduction of Covered Topics

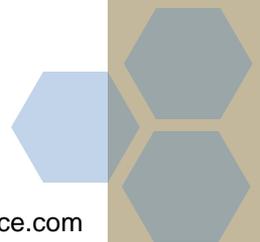
❖ Industry and Company Analysis

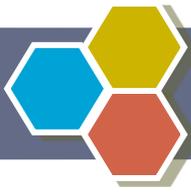
Forecast sales and costs under price inflation and deflation

Effects of technological developments

Choice of an explicit forecast horizon, projections beyond the short-term forecast horizon

Sales-based pro forma company model





Brief introduction of Covered Topics

❖ Discounted Dividend Valuation

Dividends, free cash flow, and residual income in discounted cash flow models

Using dividend discount model in single and multiple holding periods

Gordon growth model

Implied growth rate of dividends

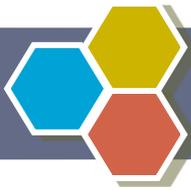
Present value of growth opportunities

Justified leading and trailing P/Es

Valuation of fixed-rate perpetual preferred stock

Strengths and limitations of GGM





Brief introduction of Covered Topics

❖ Discounted Dividend Valuation

Multistage growth models

Using two-stage, three-stage and H-model to value firms

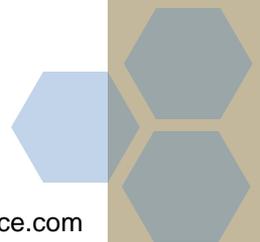
Terminal value estimation

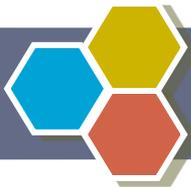
Using multi-growth model to estimate implied required return

Valuation with spreadsheet

Sustainable growth rate and DuPont formula

Determine whether a stock is fairly valued





Brief introduction of Covered Topics

❖ Free Cash Flow Valuation

Free cash flow to the firm, free cash flow to equity

Ownership perspective implicit in the FCFE approach

Making adjustments to income measures when calculating FCFF and FCFE

Compare with other pricing models

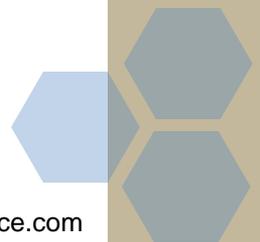
Impact on FCFF/FCFE from dividends, share repurchases, share issued, and changes in leverage

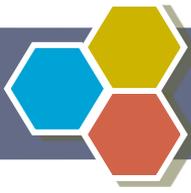
single-, two-, and three-stage FCFE and FCFF

Firm valuation using free cash flow models

Sensitivity analysis in FCFF and FCFE models

Making judgment on stock valuation





Brief introduction of Covered Topics

❖ Valuation: Price and Enterprise Value Multiples

Method of comparables and Method of forecasted fundamentals

Justified price multiple

Alternative price multiples and dividend yield

Underlying earnings and normalized EPS

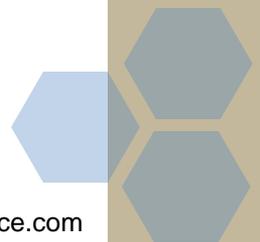
Earnings yield

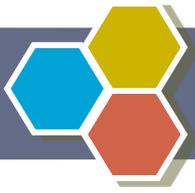
Factors that influence alternative price multiples and dividend yield

Predicted P/E

Use method of comparables to value stocks

P/E-to-growth ratio





Brief introduction of Covered Topics

❖ Valuation: Price and Enterprise Value Multiples

Use price multiples in determining terminal value

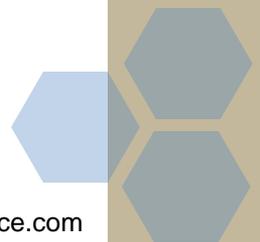
Alternative definitions of cash flow used in price and enterprise value

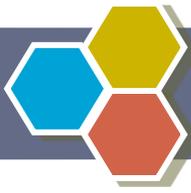
Calculate and interpret EV multiples, EV/EBITDA

Sources of differences in cross-border valuation comparisons

Momentum indicators and their use in valuation

Use arithmetic mean, harmonic mean, weighted harmonic mean, median to describe the central tendency of multiples





Brief introduction of Covered Topics

❖ Residual Income Valuation

Residual income, economic value added, market value added

Residual income models

Compare value recognition in residual income and other present value models

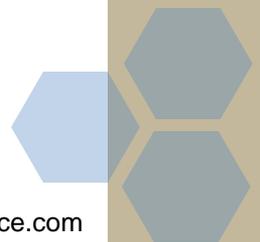
Fundamental determinants of residual income

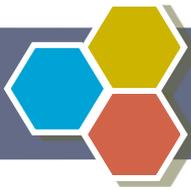
Calculate the implied growth rate in residual income

Continuing residual income

Strengths and weaknesses of residual income models

Accounting issues in applying residual income models





Brief introduction of Covered Topics

❖ Private Company Valuation

Compare public and private company valuation

Private business valuation

Various definitions of value

Income, market, asset-based approaches to value private companies

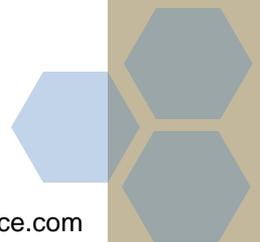
Cash flow estimation issues related to private companies

Value private companies using FCF, capitalized CF, excess earnings methods

Why we need to adjust discount rate when valuing private companies

Market approach, asset-based approach

Control and marketability, valuation standards in valuing private companies.





Thank You!

