**Course Syllabus**

**Spring 2019**

**<Dr. Yaqoub Ahmad Baqer Alabdullah>**

**FIN 450 – Equity Valuation**

**Lecture Time and Location:**

**FIN 450/01** : Sun, Tue, Thur 03:00 – 03:50 pm Room #  **309**

**Contact Information:**

**Location** : Department of Finance & Financial Institutions – 2nd Floor

**Email** : [ybaqer@cba.edu.kw](mailto:ybaqer@cba.edu.kw) (This is my preferred form of communication).

**Phone #**  : 24988479

**Office Hours** : Sun, Tue, and Thur from 2:00 to 3:00 pm or by appointment.

**Website** : [www.ybaqer.com](http://www.ybaqer.com) Check the website for updates, announcements, and materials.

**MyU :** I’ll be using MyU application throughout the semester. @YaqoubBaqer

**Teaching Assistant:** TBA

**Course Description:**

Determining the total value of a company involves more than reviewing assets and revenue figures. Equity valuation takes several financial indicators into account, including both tangible and intangible assets. This course will cover the different asset valuation models and the assumptions behind them such as free cash flow models, market-based models and residual income model. The course will also cover the challenges behind valuing private companies.

This is not a “how to” course. This is a “why do” course. By way of analogy, think of the set of plans for a building. Both an architect and a draftsman can read the plans and even copy the plans with minor changes. But an architect can do more than a draftsman can do. When it is time to design a completely new building that responds creatively to the needs of the client and the context of the built and natural environment, you want an architect. I am here to train financial architects—not draftsmen. Please do not expect to learn a cookbook of formulas that you plug numbers into. (Now that we have macros in Excel, no one will pay a salary for that skill.) Expect to learn a few simple, but powerful, intuitions and be able to apply them creatively to a variety of new situations. Finance is such a rapidly changing area that you would be poorly served with a set of rote formulae—such knowledge would be rapidly obsolete.

**Course Learning Outcomes:**

The learning outcomes for this course, listed below, relate to the learning goals of the College of Business Administration Undergraduate Program, which can be found in the appendix at the end of this syllabus. The numbers in parenthesis indicate to which specific learning goal the outcome relates.

Upon successful completion of the course, students will be able to:

1. The students will be able to explain the different types of valuation models and the assumptions behind them. (LG2, LG5)
2. The students will be able to estimate the future free cash flows for the company. (LG2, LG5)
3. The students will be able to differentiate between free cash flow to firm model and free cash to equity model and use the appropriate discount rate for each model. (LG2, LG5)
4. The students will be able to differentiate between Market-Based Valuation models. (LG2, LG5)
5. The students will be able to use spreadsheet applications (i.e. Microsoft excel) to create models to value assets. (LG2, LG3, LG5)
6. The students will be able to apply valuation models to determine the value of an existing company.
7. The students will possess the necessary analytical and communication skills to produce and present sound and logical investment and financial reports. (LG4)

**Required Material:**

**Textbook** : Damodaran, Aswath. *Investment Valuation: Tools and Technique for Determining the Value of Any Asset*. 3rd ed. Wiley, 2012. Print.

**Additional Material** :

* Damodaran’s blog. Musings on the Market: http://aswathdamodaran.blogspot.com/

**Course Requirements and Policies:**

**Expectations:** I expect every student to read the chapter before and after the class. I do not expect you to depend on PowerPoint slides for your studying. I expect you to attend each class and participate in discussions. I expect you to always be prepared and to attend the tutorials.

**Valuation Challenges:** There will be at numerous points in the semester valuation challenges in which students are required to value a firm.

**Project**: There will be a group project in which you will apply what you have learned during this course on real life companies.

**Exams:** There will be two midterms and a final. The dates of the exams are as follows:

|  |  |  |
| --- | --- | --- |
| **Date** | **Event** | **Notes** |
| **Tue 19/3/2019** | **Exam 1 (ch. 1, 2, 7, 9, 10, 11, 12, 13, 14)** | Time and place TBA |
| **Tue 23/4/2019** | **Exam 2 (ch. 15, 16, 17, 18, 19)** | Time and place TBA |
| **Mon 18/5/2019** | **Final (comprehensive)** | 9-11 am in a place TBA |

**Attendance:** I will not take attendance each class. However, your attendance is highly encouraged since I will give quizzes in some classes and I might cover something that is not covered in your textbook. Each student must abide by KU’s bylaws and the student guide. A copy of the student guide can be accessed online on:

<http://www.kuniv.edu/cs/groups/ku/documents/ku_content/kuw055940.pdf>

**Cheating and Plagiarism:** Every student in this course must abide by the Kuwait University Policy on Cheating and Plagiarism (published in the Student Guide, Chapter 3, Section 2). A copy of the student guide can be accessed online on:

<http://www.kuniv.edu/cs/groups/ku/documents/ku_content/kuw055940.pdf>

Please carefully note all sources and assistance when you turn in your work. Under no circumstances should you take credit for work that is not yours. You should neither receive nor give any unauthorized assistance on any deliverable. If you have any questions about what constitutes “unauthorized assistance” please email me before the deliverable is submitted.

**Writing Style:** Students must refer to APA writing style for their assignments and report writing. Refer to the English Language Center for help.

**Grading:**

The scores in this course will be the weighted average of the following items:

|  |  |
| --- | --- |
| **Weight** | **Description** |
| 40% | Two Midterms |
| 35% | Final Exam |
| 25% | Project |
| 10% | Valuation challenges, quizzes and participation |
| 110% | TOTAL |

**Grade Distribution:**

|  |  |
| --- | --- |
| **Grade** | **Range** |
| A | ≥ 95 |
| A- | ≥ 90 and < 95 |
| B+ | ≥ 87 and < 90 |
| B | ≥ 83 and < 87 |
| B- | ≥ 80 and < 83 |
| C+ | ≥ 77 and < 80 |
| C | ≥ 73 and < 77 |
| C- | ≥ 70 and < 73 |
| D+ | ≥ 65 and < 70 |
| D | ≥ 60 and < 65 |
| F | < 60 |

**Course Outline:**

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| --- | --- |
| **Title** | **Topics** |
| Introduction to Valuation | A philosophical basis for valuation • Generalities about valuation • The role of valuation |
| Approaches to Valuation | Discounted cashflow valuation • Relative valuation • Contingent claim valuation |
| Riskless Rates and Risk Premiums | The risk free rate • Equity Risk Premiums • Default spreads on bonds |
| Estimating Risk Parameters and Costs of Financing | The cost of equity and capital • From cost of equity to cost of capital • Best practives at firms |
| Measuring Earnings | Accounting versus financial balance sheets • Adjusting earnings • The importance of updating earnings • Correcting earnings misclassification • Accounting earnings and true earnings |
| From Earnings to Cash Flows | The tax effect • Reinvestment needs |
| Estimating Growth | The importance of growth • Historical growth • Analyst estimates of growth • The fundamental determinants of growth • The qualitative aspects of growth |
| Closure in Valuation: Estimating Terminal Value | Closure in valuation • The survival issue • Closing thoughts on terminal value |
| Dividend Discount Models | The general model • Versions of the model • Issues in using the Dividend Discount Model • Tests of the Dividend Discount Model |
| Free Cash Flow to Equity Discount Models | Measuing what firms can return to their stockholders • FCFE Valuation Models • FCFE valuation versus Dividend Discount Model valuation |
| Firm Valuation: Cost of Capital and APV Approaches | The free cashflow to the firm • Firm Valuation: The Cost of Capital Approach • Firm Valuation: The APV approach • The effect of leverage in firm value • APV and financial leverage |
| Estimating Equity Value Per Share | The value of non-operating asset • Firm Value and Equity Value • Management and Employee Options |
| Fundamental Principles of Relative Valuation | Use of relative valuation • Standardized values and multiples • The four basic steps to using multiples • Reconciling relative and discounted cash flow valuation |
| Earnings Multiples | Price Earnings Ratio (PE) • The PEG ratio • Other variants on the PE ratio • Enterprise value to EBITDA multiples |
| Book Multiples | Price to Book Equity • Value to book ratios • Tobin’s Q: Market value/replacement cost |
| Revenue Multiples and Sector-specific Multiples | Revenue multiples • Sector-specific multiples |

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| **Course Schedule** | | |
| Sun | 27/01/2019 | Introduction to the course |
| Tue | 29/01/2019 | Chapter 1: Introduction to Valuation |
| Thu | 31/01/2019 | Chapter 2: Approaches to Valuation |
| Sun | 03/02/2019 | Chapter 2: Approaches to Valuation |
| Tue | 05/02/2019 | Chapter 7: Riskless Rates and Risk Premiums |
| Thu | 07/02/2019 | Chapter 7: Riskless Rates and Risk Premiums |
| Sun | 10/02/2019 | Chapter 9: Measuring Earnings |
| Tue | 12/02/2019 | Chapter 9: Measuring Earnings |
| Thu | 14/02/2019 | Chapter 10: From Earnings to Cash Flows |
| Sun | 17/02/2019 | Chapter 11: Estimating Growth |
| Tue | 19/02/2019 | Chapter 11: Estimating Growth |
| Thu | 21/02/2019 | Chapter 11: Estimating Growth |
| Sun | 24/02/2019 | No class |
| Tue | 26/02/2019 | No class |
| Thu | 28/02/2019 | Chapter 12: Closure in Valuation: Estimating Terminal Value |
| Sun | 03/03/2019 | Chapter 12: Closure in Valuation: Estimating Terminal Value |
| Tue | 05/03/2019 | Chapter 13: Dividend Discount Model |
| Thu | 07/03/2019 | Chapter 13: Dividend Discount Model |
| Sun | 10/03/2019 | Chapter 14: Free Cash Flow to Equity Models |
| Tue | 12/03/2019 | Chapter 14: Free Cash Flow to Equity Models |
| Thu | 14/03/2019 | Chapter 14: Free Cash Flow to Equity Models |
| Sun | 17/03/2019 | Chapter 15: Firm Valuation: Cost of Capital and Adjusted Present Value |
| **Tue** | **19/03/2019** | **Midterm #1** |
| Thu | 21/03/2019 | Chapter 15: Firm Valuation: Cost of Capital and Adjusted Present Value |
| Sun | 24/03/2019 | Chapter 15: Firm Valuation: Cost of Capital and Adjusted Present Value |
| Tue | 26/03/2019 | Chapter 16: Estimating Equity Value Per Share |
| Thu | 28/03/2019 | Chapter 16: Estimating Equity Value Per Share |
| Sun | 31/03/2019 | Chapter 16: Estimating Equity Value Per Share |
| Tue | 02/04/2019 | Chapter 17: Fundamental Principles of Relative Valuation |
| Thu | 04/04/2019 | Chapter 17: Fundamental Principles of Relative Valuation |
| Sun | 07/04/2019 | Chapter 18: Earnings Multiples |
| Tue | 09/04/2019 | Chapter 18: Earnings Multiples |
| Thu | 11/04/2019 | Chapter 18: Earnings Multiples |
| Sun | 14/04/2019 | Chapter 19: Book Value Multiples |
| Tue | 16/04/2019 | Chapter 19: Book Value Multiples |
| Thu | 18/04/2019 | Chapter 19: Book Value Multiples |
| Sun | 21/04/2019 | Chapter 20: Revenue and Sector Specific Multiples |
| **Tue** | **23/04/2019** | **Midterm #2** |
| Thu | 25/04/2019 | Chapter 20: Revenue and Sector Specific Multiples |
| Sun | 28/04/2019 | Chapter 20: Revenue and Sector Specific Multiples |
| Tue | 30/04/2019 | Review |
| Thu | 02/05/2019 | Review |
| Sun | 05/05/2019 | Presentations |
| Tue | 07/05/2019 | Presentations |
| **Mon** | **18/05/2019** | **Final exam (9-11 am in a place TBA)** |