Syllabus

COMPANY VALUATION

- **Instructor:** Joy Chan ([chanj@ceu.edu](mailto:chanj@ceu.edu)). For consultations, approach me either before or after class.
- **Credits:** 2 credits
- **Term:** Winter 2020
- **Course level:** MSc Finance elective. All students are required to take the course for grades. This course is delivered with a class cap of 25 students (please note that no exceptions will be made on this). **This course follows on from Corporate Restructuring, and students are strongly encouraged to take both courses together.**
- **Prerequisites:** All enrolled students should have successfully completed core finance (financial management) and accounting (financial reporting & control) courses at graduate level.
- **Course drop:** As described by the Regulations of the MS in Finance program [here](#), at the bottom of the page

Course description

Knowing what an asset is worth and what determines that value is a pre-requisite for intelligent decision making – in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in an acquisition/divestiture and in making investment, financing and dividend choices when running a business. The premise of this course is that we can make reasonable estimates of value for most assets, and that the same fundamental principles determine the values of all types of assets, real as well as financial.

This course will equip participants with the various valuation techniques used by business consultants and bankers as well as discuss how the various elements in these models are derived, and equally, how our inherent bias and preconceptions do cloud the valuation process. We will draw upon illustrations faced by real-world companies across a broad spectrum of industries under different circumstances so that participants can grasp the full complexities that underlie each valuation process.

Learning outcomes

This course will equip students with the knowledge and skills necessary to tailor valuation models to the valuation of companies across a spectrum of industries and life cycles.

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<th>Core Learning Area</th>
<th>Learning Outcomes</th>
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<td><strong>Interpersonal and communication skills.</strong></td>
<td>Participate in class discussions and problem solving exercises. They will be able to present their arguments or findings, persuade fellow students of the usefulness of their own conclusions and objectively critique findings presented by their fellow students</td>
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<td><strong>Technology Skills</strong></td>
<td>Demonstrate an ability to use MS Excel tools in problem solving.</td>
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<td><strong>Quantitative Reasoning</strong></td>
<td>Apply financial models and formulae to evaluate key parameters in the valuation models.</td>
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**Critical Thinking**

Exercise powers of inquiry, logical thinking, and critical analysis of arguments and evidence. Interpret and evaluate theoretical arguments and empirical evidence.

**Management knowledge and skills**

Provide a comprehensive understanding of the principles and techniques of valuation analysis. Students are exposed to a number of valuation concepts, assumptions and models that practitioners in the field use and apply.

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**Reading list**

A reading pack is compiled for this course (and available on Moodle), comprising of extracts from the Damodaran Investment Valuation textbook below. Note, however, that due to copyright restrictions, only limited chapters could be copied.

If you want to understand more of the topic, I would recommend the purchase of the book (either Damodaran Aswath, Investment Valuation, 3rd edition, 2012 OR 2nd edition, 2002, John Wiley & Sons) since it is seen as the “bible of valuation” for being both comprehensive and easy to understand.

Other books and various publications:

- Damodaran Aswath, *The dark side of Valuation*, Prentice Hall

Other readings and notes may be distributed in class. All Powerpoint slides are the property of the instructor, and may be used for class review purposes only. The slides may not be copied, modified, or used in any other way, except for class review.

**Assessment**

The assessment for the course comprises of 4 sections, with weighting as follows:

- 5% Peer assessment for Group assignment
- 10% Class attendance and class participation
- 30% Minute papers (Class 3 and Class 5)
- 55% Group assignment

The grade obtained for the course is marked against the standards of the CEU and as such, is final and non-negotiable. **No emails/conversations on trying to better your score will be entertained after the exam.**

Adequate class participation is **required** for passing the class. You will be called upon to participate or contribute to classwork discussions if your participation score has been inadequate (or non-existent).

The 4-member group project requires you to apply the DCF and Relative valuation techniques learnt in class to the valuation of real world companies. You will assume the role of a long-term valued investor (such as Warren Buffett) seeking to take a substantial equity stake ($10 million or more) in an undervalued
firm. The project details will be furnished during Lecture 1. You will be required to address the questions in the project and submit an interim report as well as a professional hard copy report at the end of the course.

There is a peer evaluation component to this project and it comprises 5% of your final grade. All team members should provide a peer evaluation, ranking each member (including oneself), and providing a rational for the evaluation. Peer evaluation serves as a factor in assessing individual contributions to the success of the project. The project is graded based 50% on individual effort and 50% on group results. The peer evaluation is kept confidential and not shared.

Class participation

**Surfing the internet is highly discouraged when the class is in session.** Laptops should not be used during class sessions. Studies have shown that most people cannot learn effectively when they are distracted. Multi-tasking might work for menial and routine tasks but it is ineffective when you are required to think and contribute.

It is important that students come to class prepared and actively participate in the discussions. **Frequency and quality of students’ contribution** (beyond the minimum level of regular attendance) **will be a determinant in whether you pass or fail this course.** Evaluating the frequency and quality of a student’s contribution to class relative to other students is at the discretion of the instructor.

Almost all participation noted by the instructor will increase the student’s class participation grade, but negative class participation includes disrupting class (e.g. by coming in late), not paying attention during a student presentation, other forms of rudeness toward your fellow students, and a lack of cooperation with methods to ensure that no cheating occurs during minute papers and exams. Grading class participation is necessarily subjective and no subdivision of the grade will be available to students. Blatant disregard of class regulations (see class participation section) including the frequent use of laptops and mobile phones amounting to more than 30% of class time, will result in zero grade for class participation (no negotiations or further discussions will be accepted once grades are released).

**Technical/laptop requirement**

Laptops are not required in classes.

**Course schedule and materials for each session**

**Lecture 1: Valuation – An art or science?**
- A philosophical basis for valuation, role of valuation
- Discounted cashflow valuation, relative valuation

Damodaran Chpt 1 & 2

**Lecture 2: Estimating the Cost of Equity, Cost of Debt & Cost of Capital**
- Risk parameters – risk free rate, market risk premium, country risk premium, betas, cost of equity, cost of debt and cost of capital

Damodaran Chpt 8

**Lecture 3: Estimating earnings & cashflows**
• Converting earnings into Free cashflows to firm and Free cashflows to Equity  
Damodaran Chpt 9 & 10

Lecture 4: Estimating growth & terminal value  
• Determinants of growth and constituents of terminal value  
Damodaran Chpt 11 & 12

Lecture 5: DCF Valuation – the applications  
• Summarizing the inputs and making sense of it all  
• Applications of DCF Valuation – Nestle, HSBC, P&G

Lecture 6: Relative Valuation  
• Mechanics of relative valuation  
• Relative valuation examples  
Damodaran Chpt 17

Note: The course outline is subject to changes either before or during class at the discretion of the instructor.

Brief Bio of Instructor

Joy Chan delivers various MSc Finance, CEU iLab and EMBA electives (Company Valuation, Project Appraisal, Corporate Restructuring, Finance for Start-ups & Personal Finance) at CEU’s Department of Economics and Business where she serves as an adjunct faculty member since 2005. Joy is also a visiting Finance professor in many European and American universities and has been invited by corporations to deliver executive education training programs and consulting work. Joy bridges academic studies with relevant and insightful illustrations gleaned from her industry experiences in senior governmental positions in the Inland Revenue Singapore, International Enterprise Singapore and Ministry of Trade & Industry, Singapore and Regional Controller in KPMG Central & Eastern Europe headquarters. Joy holds a M.Commerce (Finance) (Summa cum Laude), University of Sydney, Australia; B.Business (Honors), Nanyang Technological University, Singapore. Apart from lecturing and training, she also seeks out investment and business opportunities and enjoys managing her portfolio of investments.