**ECB 359: Asset Valuation**

January, February 2019

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**Classroom:** Thomas Commons, Beijing

**Class Hours**

**9-11:10 am every weekday**

**1-2:30 pm on Monday, Tuesday and Thursday**

**(First week Afternoon sessions: Tuesday, Wednesday &Thursday)**

**Office Hours**

**2:30-3** pm every weekday or by appointment

**Prerequisites:** ECB 151, ECB 301 or 302, and ECB 225 or ECB 243 or ECB 210

**Course Overview and Objectives**

Billions of dollars’ worth of equity shares is exchanged on the financial markets on a daily basis and market participants including individual investors, portfolio managers, researchers and regulators are faced by a common question: What is the value of a particular stock?

Every asset, either real or financial has a value and understanding what that value is along with the sources of the value is the key to any successful investment.

In this course our focus is on equity valuation even though the basics of valuation models introduced are relevant and can be useful in valuing other financial and real assets including bonds, derivative securities and real estate, firm projects, etc.

This course will cover the theoretical background as well as the practical aspects of the most common valuation models. You will learn and engage in the process and steps taken by an equity analyst to estimate the “intrinsic value” of a firm by starting to follow a publicly traded corporation of your interest as your course project. These steps broadly include:

* Understanding the past performance
  + Information collection, understanding the business, accounting and financial ratio analysis and cash flow analysis
* Forecasting the future
  + Structured forecasting, Income statement forecasts, balance sheet forecasts, cash flow forecasts
* Valuation
  + Estimating the cost of capital, choosing and applying valuation model, addressing complications

As you noticed from the above rough overview of the valuation process, you will need to integrate and apply the knowledge you gained from other areas in economics and business. You will soon find yourself involved with a lot of reading too! That’s an inherent part of an analyst job and so is an essential part of this class. To be able to estimate the “true” value a firm, you’ll need to know that firm very well as well as the industry and the economy in which the firm is operating. However as stated by Damodaran “ In a world where the problem that you often face is not too little information but too much, separating the information that matters from the information that does not is almost as important as the valuation models and techniques that you use to value a firm”.

*This course supports the Educational Priorities and Outcomes of Cornell College with emphasis on quantitative reasoning, inquiry, knowledge and communication.*

**Course Material**

**Required Reading**

* **Equity Asset Valuation 3rd Edition (CFA Institute Investment Series),** by [Jerald E. Pinto](https://www.amazon.com/Jerald-E.-Pinto/e/B00B29S0PU/ref=dp_byline_cont_book_1),‎ [Elaine Henry](https://www.amazon.com/s/ref=dp_byline_sr_book_2?ie=UTF8&text=Elaine+Henry&search-alias=books&field-author=Elaine+Henry&sort=relevancerank),‎ [Thomas R. Robinson](https://www.amazon.com/s/ref=dp_byline_sr_book_3?ie=UTF8&text=Thomas+R.+Robinson&search-alias=books&field-author=Thomas+R.+Robinson&sort=relevancerank),‎ [John D. Stowe](https://www.amazon.com/s/ref=dp_byline_sr_book_4?ie=UTF8&text=John+D.+Stowe&search-alias=books&field-author=John+D.+Stowe&sort=relevancerank),‎ [Paul F. Miller Jr.](https://www.amazon.com/s/ref=dp_byline_sr_book_5?ie=UTF8&text=Paul+F.+Miller+Jr.&search-alias=books&field-author=Paul+F.+Miller+Jr.&sort=relevancerank) (Foreword), ISBN: 978-1119104261.

**Supplementary Readings**

* **Investment Valuation 3rd Edition: Tools and Techniques for Determining the Value of Any Asset (University Edition)**, by Aswath Damodaran, Wiley Finance Series, ISBN: 978-1118130735.
* **Equity Valuation and Analysis with eVal 3rd Edition,** by Russel Lundholm and Richard Sloan, McGraw-Hill, ISBN: 978-0073526989.

<http://www.lundholmandsloan.com>

* **Several Financial and Economic Press Including:**
  + **Wall Street Journal** (Cole Library 4th floor, Newspapers; or electronically available through ProQuest)

You can use the following link to access WSJ articles using library computers:

https://search.proquest.com/publication/10482/citation?accountid=41461

* + **Economist** (Cole library 3rd floor, Periodical Shelves; or electronically available by checking out an electronic subscription through Zinio)

**Class Format**

The morning sessions will be mostly dedicated to lectures based on our textbook “Equity Asset Valuation”, In-class problem sets designed to review important concepts and develop analytical skills, reviewing homework assignments and exams. During the afternoon sessions we will spend our time on, case studies/Excel simulations, group presentations and discussions.

The lecture notes are available on Moodle. However I will be mostly using the board for lecturing and you may need to take additional notes in class. I expect you to read the lecture notes and the related chapter of the textbook before each session and actively participate in class discussions.

* **Please bring your laptop and calculator with key so that you can participate (financial calculator is strongly recommended for this course)**
* **Please do not be shy about asking questions or asking me to repeat anything that is not clear to you.**

**Grading**

1. 3 Exams **50%**

**Exam1: 15%, Exam2: 15%, Final: 20%**

1. Daily Quizzes **12%**
2. Homework **17%**

**12% individual+5% group case study**

1. Valuation Project **15%**
2. Class participation **6%**

**100%**

* I reserve the right to use my discretion at the margin, and things such as class participation will be considered in borderline cases.

**Exams**

There are 2 midterm exams and a final. All exams are closed book, and to be done independently. You may bring one page of hand-written notes and not share with others. The final exam is cumulative with more focus on materials not covered in the first 2 exams. You can use (financial) calculators during the exam. See the course schedule for the exam dates.

**Quizzes**

You should be prepared for a short quiz daily aggregately accounting for 12% of your final grade. All policies regarding the exams apply for quizzes as well.

**Homework**

You will have six individual homework assignments, each accounting for 2% of the final grade and two/three case study memos (depending our time) to be done in groups. The due date for each assignment is showed in the course schedule on the last page. No late work accepted. For individual assignments, group discussion is encouraged. ***However, you need to provide your own answers in detail. Please upload each individual assignment on Moodle by 10:00 on due date.***

**Valuation Project**

Each group will pick a public company to run financial analysis that we learned in lectures and try to do asset valuation of the company. At the end of the block, each group is asked to submit a report to give recommendation to potential investors. More details will be given in the lectures.

**Class Participation**

You are expected to **attend every class on time** and **actively participate in class discussions.** If you are late for three times or more, you will lose all participation points. If you miss three days of class or more, you will get a “D” or an “F”. If you are unable to attend the class due to illness, you must email me prior to class. Students absent from class are still responsible for the respective homework assignments. These assignments can be submitted electronically via Moodle.

**Electronic policy:** Please keep your cell phones, laptops or any electronic devices turned off during class. The only exception is when I ask you to use laptops for the purpose of class activities. Please do not use any other electronic devices as calculator.

**Academic Honesty**

Academic dishonesty will not be tolerated and will be dealt with in accordance with Cornell’s Student regulations. For more information see <http://www.cornellcollege.edu/registrar/academic-catalogue/index.html#p=32>.

**Special Needs**

Students who need accommodations for learning disabilities must provide documentation from a professional qualified to diagnose learning disabilities. For more information see <http://www.cornellcollege.edu/disabilities/documentation/index.shtml>.

Students requesting services should schedule a meeting with the disabilities services coordinator as early as possible to discuss their needs and develop an individualized accommodation plan. Ideally, this meeting would take place well before the start of classes. At the beginning of each course, the student must notify the instructor within the first three days of the term of any accommodations needed for the duration of the course.

**Tentative Course Schedule**

This schedule is preliminary and will be adjusted as necessary based on the pace of the class.

* **I expect you to read the chapter listed, prior to the day we begin discussing the material in that chapter.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Topic** | **Chapter** | **Assignment Due Dates** |
| **Week1** | | | |
| 1. Jan. 14 | Equity Valuation: Application and Processes | 1 |  |
| 1. Jan. 15 | Equity Valuation: Application and Processes | 1 |  |
| 1. Jan. 16 | Return Concepts   * Return Concepts * The Equity risk premium | 2 | **HW1** |
| 1. Jan. 17 | Return Concepts   * Required Return on Equity | 2 |  |
| 1. Jan. 18 | Return Concepts   * WACC | 2 | **HW2** |
| **Week 2** | | | |
| 1. Jan. 21 | Introduction to Industry and Company Analysis | 3 |  |
| 1. Jan. 22 | Introduction to Industry and Company Analysis  *HW Review* | 3 | **HW3** |
| 1. Jan. 23 | **Mid-term Exam 1 on Chapter 1,2** | | |
| 1. Jan. 24 | Industry and Company Analysis | 3&4 | ***Project Presentation 1*** |
| 1. Jan. 25 | Industry and Company Analysis | 4 | **HW4** |
| **Week 3** | | | |
| 1. Jan. 28 | Industry and Company Analysis | 4 |  |
| 1. Jan. 29 | Discounted Dividend Valuation  *HW Review* | 5 |  |
| 1. Jan. 30 | **Class Cancelled** | | |
| 1. Jan. 31 | Free Cash Flow Valuation (Afternoon at 1 to 2:30 pm) | 5&6 | ***Case Report at 10 pm*** |
| 1. Feb. 1 | **Mid-term Exam 2 on Chapter 3,4 (at 9 am)** | | **HW5 at 10 pm** |
| **Week 4** | | | |
| 1. Feb. 4 | Free Cash Flow Valuation | 6 | **HW6 at 10 pm** |
| 1. Feb. 5 | *Final Review* |  | ***Final Presentation***  ***(1-2 pm)*** |
| 1. Feb. 6 | **Final Exam (Cumulative)**  ***Project Report Due at 10 pm*** | | |