

## ECONOMICS OF FINANCIAL MARKETS (EC 362), SEMESTER II 2019

### Equity Analysis Project

**Due Date: Friday 29<sup>th</sup> March 2019. It is worth 40% of marks for the EC362 module. Please submit your project via the assessment link on the EC362 Blackboard page.**

**Scenario:**

Assume, as of January 2019, that you are employed as an equity analyst performing ‘sell-side’ research on an international equity fund. You have been asked to prepare a report on one company on

- (a) NASDAQ 100 <http://www.nasdaq.com/quotes/nasdaq-100-stocks.aspx> or
- (b) EURO STOXX 50 <https://www.stoxx.com/index-details?symbol=SX5E> or
- (c) FTSE100 <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/indices/constituents-indices.html?index=UKX>

**What to Include in the Project (in any order):**

**Summarise your findings in an ‘Investment Summary’ section. This can be written either near the start or at the end of your report.**

1. **Highlights:** Write the key issues, share price chart, and key financial information on p.1. Also indicate your reasons for the overall ‘buy’, ‘hold/neutral’ or ‘sell’ recommendation. You might also wish to list some of the **key investment risks** facing the company.
2. **Company Overview:** Write a summary of the firm’s business operations & financial position, using both the company’s website (Investor Relations) and any other relevant sources (e.g. Google Finance, Reuters Finance, London Stock Exchange, Bloomberg, Morningstar etc.)
  - Look at sales/revenue growth ('top line'); profitability/earnings ('bottom line'); sources of growth; and current financial / trading position.
  - Reuters <http://www.reuters.com/finance/stocks/> is particularly good here
  - You can also discuss the company’s future strategy, brands, innovation, etc.
  - Concentrate on key trends, e.g. changes in profit margins, EPS and other key metrics.
  - Analyse at least 3 financial ratios (e.g. profit margins; return on investment; total asset return) [Depending on your accounting proficiency, perform as much financial statement analysis as you can!]
3. **Macroeconomic Environment:** Based on the geographical breakdown of the company’s business, write a short outline of the key macroeconomic risks relevant for the company in question. Focus mainly on GDP, inflation, consumer spending and other issues that would concern investors. The OECD country website may be a good place to start, e.g. <http://www.oecd.org/germany/> Other sites such as Quandl, FRED, IMF, etc. could be very useful for charts, tables, and economic forecasts. Investment management firms also publish macroeconomic reports.

#### **4. Industry & Peer Analysis:**

i. Write up a brief overview of the main factors affecting the **industry** in which the company operates (you can bring in a wide range of sources, e.g. Wired magazine or investment bank research sites may have a good article on the growth of new technologies). Use Bloomberg, Reuters or similar sites to list and compare the company's financial ratios to industry averages. If you are familiar with the concepts, you can use Porter's 5 Forces, SWOT analysis, PESTEL etc. You may also wish to use the relevant Industry reports (e.g. Consumer Brands, Airlines) published by investment banks or analysts.

iii. Choose a **rival firm or peer** in the same industry (it need not be on the same index). You can use sites such as Reuters, Finviz, or Morningstar to compare the firm that you analyse to peers in the same sector in terms of profitability, sales growth, valuation etc. Look up the other firm's website and find its Investor Relations page. Analyse the key differences between the firms in terms of revenue and profitability and recent stock market performance. Use Reuters or similar to list and compare the company's financial ratios to industry averages.

#### **5. Perform some fundamental and technical analysis on the share:**

- Apply at least 3 *valuation metrics* (e.g. P/E; P/B; dividend yield) to compare your chosen firm to the relevant stock market index and rival firm(s). Explain the metrics and analyse what they suggest about the valuation of the company.
- Using StockCharts <http://stockcharts.com/charts/>, Yahoo Finance, Google Finance or any other website, pick at least 3 *technical indicators*. Explain the indicators and analyse what they suggest about the short-term future direction of the share price. Examine whether the technical indicators have been a good indicator in the past 12 months.

6. Analyse at least 3 major **news events** associated with the company (e.g. use Google Finance's interactive chart, Reuters or other news sites) to examine whether there was any evidence of significant marked-adjusted or mean-adjusted abnormal returns around the news.

7. Finally, write a short **analyst recommendation** – outperform, neutral, or underperform the overall UK stock market over the next 12 months. While this is obviously subjective, try to come up with at least 2 justifications for your recommendation. You can also compare your recommendation to the 'Analyst Opinion' at Yahoo Finance or Reuters.

#### **Notes:**

- ]) You can copy across tables and/or graphs from the various websites (label and source these, however). However, DO NOT merely cut and paste the text word for word from the Investor Relations and other web pages. Summarise the issues in your own words!
- ]) As each student's project should be unique, any plagiarism from another student will be easily spotted and marks will be deducted accordingly.
- ]) The report should not exceed 20 pages, excluding charts and tables.

**NB: Please submit your report in Word or PDF on Blackboard.**

*Examples of previous equity reports have been posted on Blackboard.*

You might also find the examples of previous winners of the Global Investment Research Challenge organised by CFA Institute useful, as well as all of the examples of past student and professional equity reports.