

Project 2: Comparables Analysis

Approach

For our comparables analysis, we are using Yahoo Finance to get stock data which includes market cap, debt and Market Beta. WRDS - Compustat is used for getting Competing Firms.

Here we query the user for his choice of stock which is trading in the stock market along with the timeframe for which he needs the Comps analysis. For the comps, it is chosen via SIC codes and the firms which are closed to the target firm by market value. The user is also queried for the Debt to Equity ratio assumption for each firm.

With this data the Beta unlevered is calculated for each of the 5 competing firms which is then averaged out and levered again with the Targets firm's D/E ratio criteria.

The Beta obtained from the Comparables Analysis is then compared to the Beta obtained from the SCL regression line and a recommendation is made on BUY/SELL/HOLD on the company's stock. If Equity Beta from SCL is less than Beta from Comps Analysis, we should sell the stock and vice-versa.

Sample Output for Microsoft.

Comparables:

symbol	shortName	totalDebt	marketCap	beta	Debt/Equity	F_type	Unlevered Beta
ORCL	Oracle Corporation	8.271800e+10	2.600833e+11	0.800000	0.318044	Constant D	0.639358
SAP	SAP SE	1.554700e+10	1.753918e+11	0.957627	0.088642	Constant D	0.894956
ATVI	Activision Blizzard, Inc	3.607000e+09	5.204537e+10	0.594285	0.069305	Constant D/E	0.555768
LBRDK	Liberty Broadband Corporation	4.333717e+09	2.992973e+10	0.964155	0.144796	Constant D/E	0.842207
CRM	Salesforce.com Inc	1.577400e+10	3.034508e+11	1.068051	0.051982	Constant D/E	1.015275

Microsoft:

symbol	shortName	totalDebt	marketCap	beta	Debt/Equity	F_type	Beta_Levered_Comps	Beta_SCL_Regression
MSFT	Microsoft Corporation	78934999040	2530114011136	0.862337	0.031198	Constant D/E	0.814131	1.31246

For this case, we should Buy Microsoft as Market Beta is higher. (This is assuming that the D/E assumptions are correct. Tax rate = 21% and risk free = 0.035)