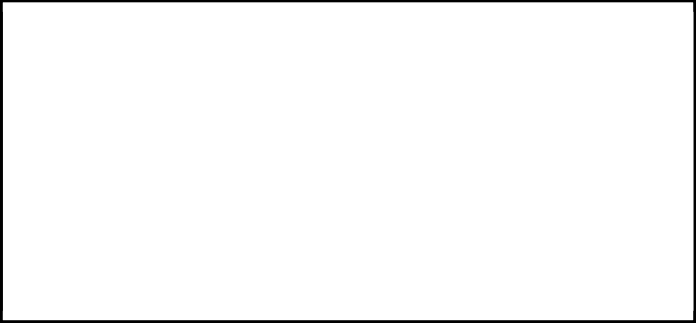
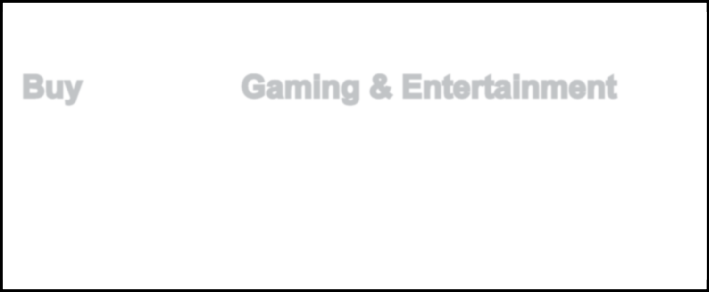
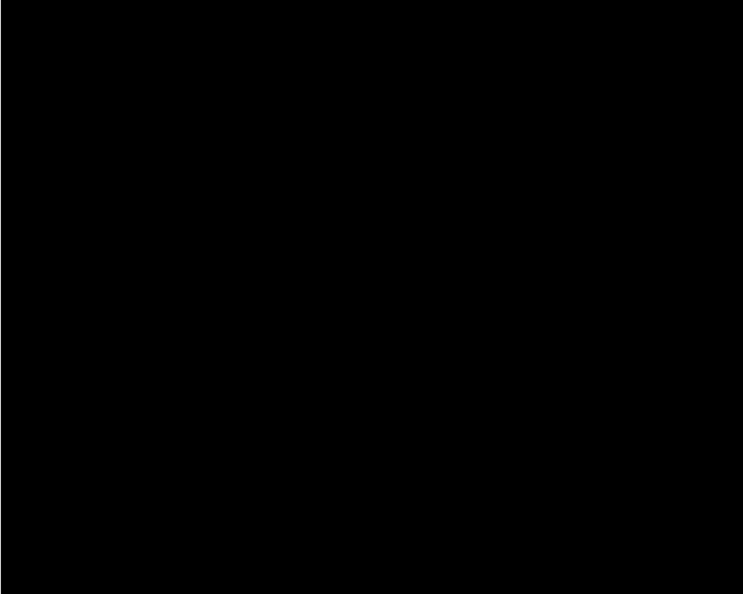
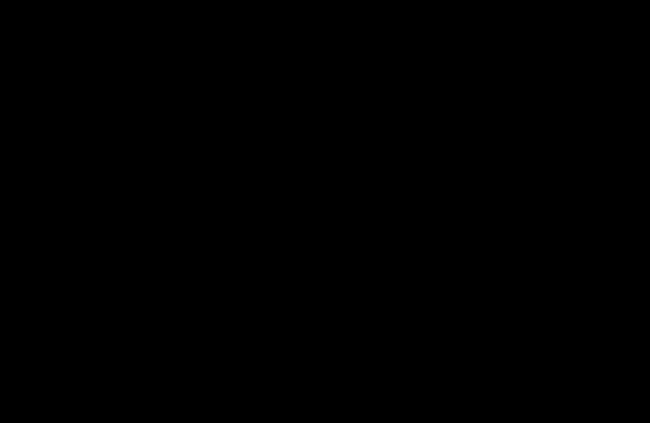
RATING AUSTRALIA



LISTING DATE REUTERS BLOOMBERG

CROWN RESORTS LIM

I

TED (CWN)

PRICE AT 22ND APRIL 2015 MARKET CAP (MIL)

PRICE FORECAST SHARES OUTSTANDING (MIL)

52-WEEK RANGE

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**EXECUTIVE SUMMARY**

This report aims to present an equity valuation analysis ….

# 1.0 INTRODUCTION

**2.0 RECENT FINANCIAL PERFORMANCE**

Share Price Performance



*Figure …*

# 3.0 OVERTIME FINANCIAL PERFORMANCE

**Using relevant charts, evaluate the company's share price performance over the last five years**

* compare the relative performance of the company to the broad market index
* compare the relative performance of the company to its peer group
* *comment* on these charts, referencing reasons for any significant changes you have identified

**Perform a technical analysis of share price movements over the last five years**

* use 50-day vs 200-day moving average lines and volume analysis to identify Buy/Sell/Hold signals
* *show*, and *comment* on, these analyses with reference to charts sourced from Eikon

Share Price Performance



*Figure …*

# CURRENT ISSUES

**Analyse the company' s/industry's current issues and explain the effect of these issues on the company's future earnings**

1. At the Macroeconomic Level

* general factors that apply for the industry (GDP, employment, growth of the industry, regulation, global factors, supply, demand, world commodity prices, etc.)

1. At the Microeconomic Level

* the company- and industry-specific factors (operation, financials, objectives, competition, etc.)

1. As a SWOT analysis

* *detail* the Strengths, Weaknesses, Opportunities and Threats to the company

1. As *either* a PESTEL *or* a Porter analysis

* *analyse* the company's position in its industry using *one* of the above techniques

## Macroeconomics Factors

* 1. Microeconomics Factors

**5.0 PEER COMPARISON**

**Evaluate the relative historical financial performance of the company among its peers**

* *identify* the firm's competitors and *discuss* why they have been selected
* *identify*, and *explain* the relevance of, five financial ratios of your choice (not to include ROE, Net Profit Margin, Total Asset Turnover or Financial Leverage) for the company and its peers
* *explain* the performance of the company compared to its peers using this analysis
* *analyse* and *explain* the reasons for changes in these ratios over the past five years and compared to the average of the past five years
* *do not* simply describe the changes in the ratios

**Rio Tinto Plc**

**BHP Group**

**Atlas Iron**

**Hancock Prospecting**

**Ratios**

**Current Ratio**

**Cash Cycle Days**

**Growth Rate of Sales**

**Merchant Growth**

**Customer Growth**

**6.1 DUPONT ANALYSIS (2013-2017)**

**Estimate the ROE of the company for the most recent five years using the DuPont ROE approach.**

* DuPont Analysis should be done using the 3-step procedure
  + 3 steps: Net Profit Margin, Total Asset Turnover and Financial Leverage
* *analyse* the company's and your selected peer companies' ROEs over the period
* show your own calculations for each component over the previous five years
* *compare* the DuPont ROE of the company with its industry peer group companies
* *analyse* and *comment* on the reasons for the change in ROE for the firm and its competitors with reference to the difference in the three components over five years
* *relevant* *charts/graphs* may be used to illustrate these figures

*Figure ….*

# ESTIMATE VALUATION MODELS

## Capital Asset Pricing Model (CAPM)

**Intrinsic Value Estimation**

**Start your valuation analysis with the estimation of expected return using CAPM**

You need 3 inputs to calculate the CAPM expected return

1. **An Estimate of the company's Beta**

Use the closing price data for the company and the market index (provide on Canvas) to calculate daily holding period yields for the most recent five years. Using this data, you can estimate raw beta by using regression analysis. Attach details of your work as an Appendix.

* Adjust the Raw Beta using the formula: *Adjusted Beta = (0.67) x Raw Beta + 0.33*

1. **The Risk-Free Rate of Return**

Use the 10-year Australian Government bond yield as a proxy for the RFR. This yield can be found on Eikon page AU10YT=RR.

1. **The Market Return**

Please use this estimate of the market return E(Rm): 9.85% (Source: Bloomberg)

* The estimated CAPM required return should be used as the discount rate in your valuation models



Risk Free Rate Market Return Market Risk Premium Market Portfolio

Beta (βi)

## Dividend Discount Model (DDM)

**Estimate the intrinsic value of the company's shares using the dividend discount model (DDM)**

* you *must* use a 3 Stage DDM. Follow the methodology discussed in the Equity Valuation slides
* use CAPM return as your discount rate
* determine the growth rate for Period 1 using the average growth rate in dividends for the past 5 years. You may choose to ignore this growth rate if it unsustainably high or low.
* estimate the growth rate for Period 2 using your discussion in the company's/industry current issues section
* estimate the terminal (Period 3) growth rate using a proxy that represents the long-term growth rate and calculate the terminal value
* calculate the present value of each future dividend and the terminal value, then add them to calculate the intrinsic value of the company
* provide *justification* and *reasoning* if you use a different growth rate than the one calculated for Period 1
* provide *justification* and *reasoning* for your growth rate assumptions for growth in Period 2 and Period 3

Constant Growth in DDM Model

Multi-stage Growth in DDM Model Dividend Forecast

5-years Dividend History

5-years Sustainable Growth Rate History of Crown

Forecasted Dividend Growth Rates

|  |
| --- |
| Phase 1: High Growth Stage (2018-2020) |
| **Dividend Growth Rate of %** |
| **1.** |
| **2.** |
| **3.** |
| Phase 2: Slow – Moderate Growth Stage (2021-2023) |
| **Dividend Growth Rate of %** |
| **1.** |
| **2.** |
| **3.** |
| Phase 3: Stable Growth Stage (2024-onwards) |
| **Dividend Growth Rate of %** |
| **1.** |
| **2.** |
| **3.** |

The following estimates will affect the accuracy of the model

ASSUMPTIONS

* Sustainable growth rate is expressed as a perpetuity, estimated at long run GDP
* Multistage growth is the most appropriate for current conditions (not zero growth,

or constant growth)

* When and by how much dividends will change over the time period
* Payout ratio and required return remain constant
* The company will continue to pay out regular dividend.

Intrinsic Share Price

Calculate company share price (see video on canvas)

# 8.0 COMPANY EVALUATION

**Apply Relative Valuation techniques to ascertain the valuation of the firm**

* *calculate* and *compare* multiples such as Price-to-Book, Price-to-Earnings and Price-to-Cash Flow or Price-to-Sales for the company and its peers
* determine the relative valuation of the firm using these multiples (do not attempt to calculate the share price)
  + *analyse* and *comment* on the relative valuation of the firm in comparison to its peers

Based on DDM, is the company overvalued or undervalued?

**Evaluate your findings**

* Why do the intrinsic values you have calculated differ from the current/recent share price?
* How does this difference inform your investment recommendation?
* What is your investment decision based on your evaluation?
  + Is your recommendation to Buy, Sell or Hold shares in this company?
* Is it different from the signal obtained from the technical analysis? Why?
* Does your qualitative analysis agree with your quantitative analysis? If not, why not?

# 9.0 APPENDICES

# APPENDIX 1

# Peer comparison

# Ratio comparison data/tables

# Appendix

# Calculations

# Definitions

# ROE Calculation data for

# Rio Tinto

# BHP

# Hancock

# Atlas Iron

# Tables/graph data

# Appendix 4

# CAPM

# Determinants

# Inputs

# Calculation/Equation

# Beta Excel output

# Intrinsic Value

# Inputs

# Required Return=CAPM=11%

# Previous dividend=$0.077

Calculations for intrinsic value

D1=𝐷𝑜∗(1+𝑔)= .077∗(1+0)=.077

D2=𝐷1∗(1+𝑔)= .077∗(1+.06)=.0.082

D3=𝐷2∗(1+𝑔)= .082∗(1+.08)=.088

D4=𝐷3∗(1+𝑔)= .088∗(1+.05)=.093

D5=𝐷4∗(1+𝑔)= .093∗(1+.05)=.097

D6=𝐷5∗(1+𝑔)= .097∗(1+.02)=.099

T𝑒𝑟𝑚𝑖𝑛𝑎𝑙 𝑉𝑎𝑙𝑢𝑒 = 𝐷6/(𝑘 − 𝑔) = .099/= (. 11 − .021) = 1.115

(where k=CAPM=Required Return)

g = dividend growth for the last period

PV1=𝐷1/(1+𝑘)= .077∗(1+.11)=.069

PV2=𝐷2/(1+𝑘)^2= .077∗(1+.11)=.066

PV3=𝐷3/(1+𝑘)^3= .077∗(1+.11)=.064

PV4=𝐷4/(1+𝑘)^4= .077∗(1+.11)=.061

PV5=𝐷1∗(1+𝑘)= .077∗(1+.11)=.058

PV 𝑜𝑓 𝑡𝑒𝑟𝑚𝑖𝑛𝑎𝑙 𝑉𝑎𝑙𝑢𝑒 = 𝑡𝑒𝑟𝑚𝑖𝑎𝑛𝑙 𝑣𝑎𝑙𝑢𝑒 /(1 + 𝑘)^5 = 1.115/(1 + .11)^5 = 0.662

Intrinsic value = 𝑃𝑉1 + 𝑃𝑉2 + 𝑃𝑉3 + 𝑃𝑉4 + 𝑃𝑉5 + 𝑃𝑉 𝑜𝑓 𝑡𝑒𝑟𝑚𝑖𝑛𝑎𝑙 𝑣𝑎𝑙𝑢𝑒 .069 + .066 + .064 + .061 + .058 + .662 = .981

**10.0 REFERENCES**