

Instructions for Individual Project (Weight: 50%, Marks: 100, Word Count: 4,000)

February 15, 2024

1 Introduction

The individual project is the second part of your equity research report. The purpose of this project is to help you develop the skills necessary to conduct an equity analysis. The project will help you appreciate the challenges involved in valuation and the complexity of the tasks involved. It will help you develop knowledge of a particular company and its industry. The project will give you hands-on experience in analysing financial statements and will, thus, help you connect theory with practice. Finally, you will learn how to forecast financial statements and use them for estimating the value of equity of your chosen company.

Write your project report in a report form. The project is divided into the following parts:

2 Revising The Group Project (10 marks)

We shall provide feedback on the group project. You should incorporate that feedback into the revised group project. Work on the feedback with your group members and include a separate document enumerating the comments raised and the specific way you have addressed them (with a reference to the group project report where you have incorporated the changes). **Note that each member of the group must submit this document individually.** The suggested word count for this exercise is **200** words.

3 Accounting Analysis (20 marks)

Your analysis should cover the following points:

1. Evaluate the earnings quality of your company. Use ANY TWO earnings quality measures discussed in the lecture (earnings persistence, earnings predictability, and accruals quality) clearly explaining your

earnings quality measures.¹. Compare this with competitors. The suggested word count is **350**. (5 marks)

2. Provide more evidence on earnings quality by comparing the cash flow from operations with net profit after tax. Does this analysis support your initial conclusions about earnings quality? The suggested word count is **150**. (3 marks)
3. Discuss whether your company may have manipulated earnings over the past five years (if your company does not have 5 years' history, use the longest available period). Use any two measures of earnings management to examine this issue. You must explain the earnings management proxies you used. The suggested word count is **150**. (6 marks)
4. Are there any red flags in the financial statements over the last 5 years (if your company does not have 5 years' history, use the longest available period)? How have those red flags affected financial statements? Is there any adjustment necessary? If so, what adjustments did you make? The suggested word count is **300**. (4 marks)
5. Evaluate the quality of disclosure by comparing the disclosures of your company with those of its biggest competitor. You could consider the extensiveness of financial statement disclosure and whether all line items have accompanying notes to assess the quality of disclosure. The suggested word count is **100**. (2 marks)

4 Financial Analysis (15 marks)

Your analysis should cover the following points:

1. Conduct a simple DuPont analysis (you must explain what the simple DuPont model shows) of your company and compare the results with those of two main competitors for the last year. The suggested word count is **150**. (2 marks)
2. Conduct advanced DuPont analysis (you must explain what the advanced DuPont model shows) of your company and compare the results with those of two main competitors for the last year. Are there any differences? The suggested word count is **300**. (5 marks)
3. Compare 3 key asset management ratios for your company with those of two main competitors. You must explain your choice of asset management ratios (i.e., you must choose appropriate ratios). The suggested word count is **150**. (3 marks)

¹You could obtain financial statement data from *DatAnalysis Premium* or *Orbis*.

4. Analyse one liquidity and one debt ratio for your company over the past 5 years. Explain why you chose these ratios (i.e., you must choose appropriate ratios). What does this analysis tell you? The suggested word count is **150**. (5 marks)

5 Forecasting (15 marks)

Generate pro forma Income Statements and Balance Sheets for your company. What growth assumptions have you made and why? What is your chosen forecast horizon and why? The suggested word count is **400**.

6 Cost of Capital (8 marks)

Your analysis should cover the following:

1. Estimate the beta of the company and explain how you estimated it. The suggested word count is **200**. (3 marks)
2. Estimate the cost of equity clearly explaining the parameters of the model. The suggested word count is **150**. (2 mark)
3. Estimate of cost of debt. Explain your assumptions. The suggested word count is **150**. (2 mark)
4. Estimation of weighted average cost of capital. The suggested word count is **50**. (1 mark)

7 Valuation (27 marks)

You must provide two discounted cash flow (DCF) valuations (out of the three discussed in the lectures) and one relative valuation. Your analysis should cover the following points:

1. Explain your choice of DCF valuation methods and valuation multiple. The suggested word count is **150**. (6 marks)
2. Valuation using DCF methods. The suggested word count is **250**. (10 marks)
3. Valuation using multiples. The suggested word count is **100**. (5 marks)
4. Reconcile your DCF and relative valuations. You must consider the relative strengths and weaknesses of each valuation method in the context of your chosen company. The suggested word count is **200**. (5 marks)
5. What is your stock recommendation? The suggested word count is **50**. (1 mark)

8 Conclusion (5 marks)

Summarise your project. Point out some limitations of your analysis. The suggested word count is **100**.

Clear citations and references are expected for all information not common knowledge. You must also clearly mention the source of data used for your analysis.