Course information 2019–20
AC3143 Valuation and securities analysis

This course provides insights and understanding of security analysis and valuation from both theoretical and empirical perspectives. It is aimed at students who are interested in equity research, corporate finance and fund management.

Prerequisite
If taken as part of a BSc degree, courses which must be passed before this course may be attempted:

- FN1024 Principles of banking and finance
- AC1025 Principles of accounting.

Aims and objectives
This course is aimed at students interested in equity research, corporate finance, and fund management. It is designed to provide the tools, drawn from accounting, finance, economics, and strategy, required to:

- analyse the performance of securities
- value securities
- assess returns on active investment strategies.

Furthermore, it provides empirical evidence on returns to fundamental and technical analysis.

Essential reading
For full details please refer to the reading list

Palepu, K., V. Bernard and P. Healy. Business Analysis & Valuation. (South-Western College Publishing)

Learning outcomes
At the end of this course and having completed the essential reading and activities students should be able to:

- carefully analyse the financial performance of given securities and critically review equity research published by financial analysts
- competently apply valuation technologies required in corporate finance with minimum guidance
- critically assess third-party valuation reports
- recall main insights and key facts of the fund management industry
- clearly recognize the difficulties associated with measuring abnormal returns in fundamental and technical analysis.

Assessment
This course is assessed by a three-hour unseen written examination.

Students should consult the appropriate EMFSS Programme Regulations, which are reviewed on an annual basis. The Regulations provide information on the availability of a course, where it can be placed on your programme's structure, and details of co-requisites and prerequisites.
The analysis framework and financial statements


Introduction to stylised financial statements. Stylised profit and loss, balance sheet and cash flow statements. Accounting relations governing the stylised financial statements.

Financial analysis: performance evaluation

Financial analysis: the determinants of performance

Accounting and strategy analysis

Prospective performance evaluation and valuation

Securities valuation

Implications for price-to-earnings and price-to-book ratios

Financial information and stock prices
Usefulness of earnings to investors: the empirical evidence from capital markets research. Earnings response coefficients. Competing hypotheses to explain the earnings response conundrum. Fundamental information analysis and stock prices.

Applications
Internet stock. Financial measures vs usage measures in the valuation of internet stocks. A time trend analysis of the relative importance of financial vs usage measures.


Returns to fundamental analysis

Returns to technical analysis
Contrarian strategies. Momentum strategies. Reconciliation of empirical evidence