Stock Analysis Project

A major component of the course (20% of your course grade) is the production of a security analysis report

Part 1 of your assignment

- Identify the stock that you plan to value –due by noon on October 2, 2009.
- Although not necessary, for ease of finding information, it is best if the company has at least $1 billion dollars in market capitalization

Part 2 of your assignment

- Analyzing and projecting financial statements
- Goal:
  - The goal of this component of the project is to develop your forecasting assumptions and use them to project your financial statements. This information will later be extended to incorporate the valuation.
  - Justify your assumptions!!! Don't simply state that you think sales growth will be 5%...why do you think it will be 5%?
- Back up and keep copies of all your work

- What is required?
  - Discussion of financial analysis (forecasted statements and ratio analysis)
    - Discuss the quality of the financials—red flags?
    - Results of ratio analysis looking at the past performance of the firm and compared to competitors and the industry.
- You should use your forecasting assumptions to project financial statements for 5 years and an additional terminal year—unless you have a reason to choose a longer time period than 5 years.
- Turn in both a print-out of your forecasting assumptions as well as your projected financials.

Part 3 of your assignment—putting it all together—
due November 19, 2009*

1. Summary page
2. Fairly brief company description
3. Macro economic analysis--how will the macro economy affect this particular stock, industry, etc.?

4. Industry analysis
5. Company analysis
6. Discuss the overall competitive strategy and growth prospects of the company
7. Present and analyze financial statements
8. Discuss the near-term and long-term forecasting assumptions that are used in the valuation
9. Present the DCF valuation, together with the cost of capital analysis
10. Present the relative valuation

11. Use the DCF and relative valuation methods to arrive at a target price (target price range.) Make a buy/sell/hold recommendation based on your target price. Present the relative valuation

What makes a good valuation report?

- Neutral and un-biased.
- Don't bind it or cover it.
  - 1 staple in the top corner
  - For readability, put on white copier paper
- Use proper grammar and correct spelling. Please note your presentation…if you obtain facts from a source, by all means reference your source.
- Proof read your report a few times.
- Justification for assumptions…such as growth rate. Spend time discussing the prospects for the firm - don't pull these assumptions from the air… clearly justify them.
- Be suspicious when a valuation comes in substantially different (>25%) than the current market value.
- Include plenty of analysis of the market, competition and future prospects.
- Avoid reliance on technicals and charting.
- For your valuation:
  - Give us a range of values - i.e when growth is low, medium, and high. Sensitivity analysis allows your reader to see how a particular variable affects value.
  - Think carefully about your forecasting assumptions - triple check your numbers.
  - Use DCF (Discounted Free Cash Flow to Equity Holders) as your primary method of valuation and relative valuation as secondary.

*Please note that November 19 is the last class day prior to the Thanksgiving break and there is also an exam scheduled for that day.