

# Investment Analysis Project

## Academic Year 2010-2011

**Course Leader:** Dr. Cesario MATEUS

This module aims to enable students to conduct an in-depth investment analysis case study on a single company drawn from FTSE 350 and been listed at least for the last three years. The case study exercise aims to provide students with the opportunity to demonstrate, in the development of a detailed analyst's company report, the skills and knowledge acquired in the area of investment analysis

### **What is this project?**

This project provides an opportunity to build on the taught modules in the MSc Investment Analysis and apply the theories and models to real firms. In this project the student will get an opportunity to:

- evaluate the risk profile of a firm, and examine the sources of risk.
- understand the nature and operation of global capital markets.
- develop the ability to apply the theoretical constructs and respond rationally to the volatility of financial markets.
- employ the tools of financial statement analysis in a structured manner;
- analyze the firms markets, how stable they are and how could they affect the value of the firm
- analyze the industry, growing or contracting and how it will affect the share price.
- engage in deep analysis of the macroeconomic environment and the competitive environment of the industry or industries to which the firm belongs;
- analyze its capital structure, and decide whether the firm is under or over leveraged.
- examine its dividend policy, and decide whether more or less should be paid in dividends
- value the firm
- recommendation either the stock is over or undervalued.

In the project the students should address besides others (to be discussed in the lectures) the following questions/issues:

- **Introductory Material:** Company Description, Ticker Symbol, Industry (Type of the industry), officers/Directors Holdings, Partners, etc.

- **Corporate Governance Analysis:** Is this a company where there is a separation between management and ownership?
- **Economy Analysis:** Discuss the general economy, Economic life cycle, Economic indicators, Macro-economic forecast and the future expectations from an economy
- **Industry Analysis:** Discuss the industry of the company, Industry life cycle, Macro and micro level of industry forecast and future expectations from an industry.
- **Company Information:** Copy of any relevant articles that appear in the written media, summarize the listed articles and discuss the effects of the articles to the company's financial structure. Follow the company news and information presented to the Stock Exchange, discuss the effects of the news to the company's stock price.
- **Stockholder Analysis:** Who is the average investor in this stock? (Individual or pension fund, small or large, domestic or foreign)
- **Risk and Return:** Is the risk of the coming from market, firm, industry or currency? What return would you have earned investing in this company's stock? Would you have under or outperformed the market? How risky is this company's equity? Why? What is its cost of equity? How risky is this company's debt? What is its cost of debt? What is this company's current cost of capital?
- **Capital Structure Choices:** What types of financing that this company has used to raise funds. Advantages or disadvantages for the firm in using debt. Does your firm have too much or too little debt comparing with the industry and the market?
- **Dividend Policy:** How has this company returned cash to its owners? How would you recommend that they return cash to stockholders?
- **Financial Information:** Monthly Stock Prices of the last 3 years. Adjusted and Unadjusted. Monthly Stock Price Graph of the last 3 years, compare it to the FTSE 100 monthly returns. Fundamental Values with fundamental analysis (Last 3 years balance sheet and income statement with the most important accounts and headings, discuss the company's past performance in-terms of financial statements).
- **Valuation:** What type of cash flow would you choose to discount for this firm? What is your estimate of value of equity in this firm? How does this compare to the market value? What is the value of the firm? Is the firm over or undervalued?

- **Most recent:** Market Value, Book Value, Beta, ROE, ROA, ROI, Profit Margin, Current Ratio, Dividends, P/E approach, and other important ratios of your choice from Leverage, Liquidity, Efficiency, Profitability, and Market-Value approaches.

### Timetable

Date		Hours
May, 4 <sup>th</sup>	Lecture	10-13
May, 4 <sup>th</sup>	Lecture	14-17
May, 25 <sup>th</sup>	Lecture	10-13
May, 25 <sup>th</sup>	Office Hours	14-17
June, 22 <sup>nd</sup>	Lecture	10-13
June, 22 <sup>nd</sup>	Office Hours	14-17

### References

Brealey R., Myers S., and Allen F., Principles of Corporate Finance, 8th Edition, McGraw-Hill/Irwin

Bodie, Zvi, Alex Kane, and Alan Marcus, *Investments*, McGraw-Hill/Irwin

Sharpe, William, Gordon Alexander and Jeffery Bailey, *Investment*, Prentice-Hall.

Handouts and additional material supplied during the lectures