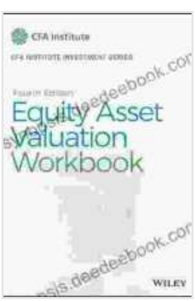
Equity Asset Valuation Workbook CFA Institute Investment 121

Equity asset valuation is the process of determining the value of a company's equity. This can be done for a variety of purposes, such as raising capital, making investment decisions, or calculating taxes. There are many different methods that can be used to value equity assets, and the most appropriate method will vary depending on the specific circumstances.

In this workbook, we will provide an overview of the equity asset valuation process, including the different methods that can be used to value equity assets. We will also provide some practical examples of how to apply these methods.

There are many different methods that can be used to value equity assets. Some of the most common methods include:



Equity Asset Valuation Workbook (CFA Institute Investment Series 121) by Jerald E. Pinto

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The most appropriate equity valuation method will vary depending on the specific circumstances. For example, DCF analysis is often used to value companies that are expected to grow rapidly, while comparable company analysis is often used to value companies that are in a mature industry.

Let's now take a look at some practical examples of how to apply the different equity asset valuation methods.

Example 1: DCF analysis

Let's say that we are trying to value a company that is expected to grow at a rate of 5% per year for the next five years. The company's current earnings per share are $1.00, and its current share price is $10.00.

To value the company using DCF analysis, we need to forecast the company's future cash flows. We can do this by multiplying the company's current earnings per share by its expected growth rate.

Year 1: $1.00 x 1.05 = $1.05 Year 2: $1.05 x 1.05 = $1.10 Year 3: $1.10 x 1.05 = $1.16 Year 4: $1.16 x 1.05 = $1.22 Year 5: $1.22 x 1.05 = $1.28

Once we have forecast the company's future cash flows, we need to discount them back to the present to determine the value of the company's equity. We can do this using the following formula:

Value of equity = Sum of discounted future cash flows where:

- Value of equity is the present value of the company's future cash flows
- Sum of discounted future cash flows is the sum of the company's future cash flows, discounted back to the present using a discount rate

In this example, we will assume that the appropriate discount rate is 10%. This means that the present value of the company's future cash flows is:

Value of equity = $1.05 / (1 + 0.10)^1 + $1.10 / (1 + 0.10)^2 + $1.16 / (1 + 0.10)^3 + $1.22 / (1 + 0.10)^4 + $1.28 / (1 + 0.10)^5 = $10.73

This means that the value of the company's equity is $10.73 per share.

Example 2: Comparable company analysis

Let's say that we are trying to value a company that is in a mature industry. The company's current earnings per share are $2.00, and its current share price is $20.00.

To value the company using comparable company analysis, we need to find other companies that are similar to the company we are trying to value. We can then compare the company's earnings per share to the earnings per share of the comparable companies.

In this example, we found that the average price-to-earnings ratio of the comparable companies is 15.0x. This means that the value of the company's equity is:

Value of equity = Earnings per share x Price-to-earnings ratio

Value of equity = $2.00 x 15.0x = $30.00

This means that the value of the company's equity is $30.00 per share.

Example 3: Asset-based valuation

Let's say that we are trying to value a company that has the following assets and liabilities:

- Assets: $100,000
- Liabilities: $50,000

To value the company using asset-based valuation, we need to subtract the company's liabilities from its assets. This will give us the value of the company's equity.

In this example, the value of the company's equity is:

Value of equity = Assets - Liabilities

Value of equity = $100,000 - $50,000 = $50,000

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This means that the value of the company's equity is $50,000. Equity
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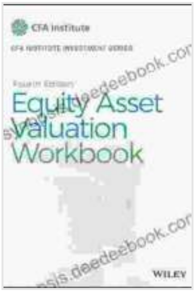

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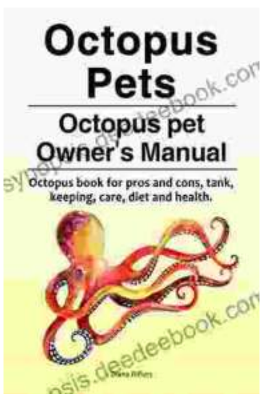

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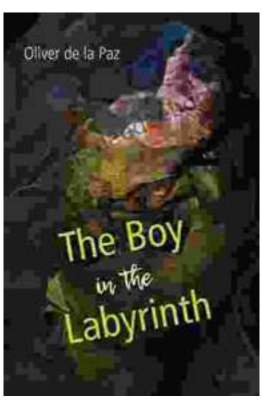

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