BAFI1042 Investment Company Valuation Assignment (30%)
Semester 1 2017

Company: **Primary Health Care Limited (PRY)**
Website: **www.primaryhealthcare.com.au**
Submission Date: **Monday 01. 05. 2017, 5:00pm (Beginning of Week 9)**

[Group Composition for Group Assignment: strictly 3 students per group within the same tutorial]

For this assignment you are required to use publicly available information to analyse a publicly listed company and prepare a report which provides an assessment of the company's current position and future prospects, and which incorporates the use of a range of valuation models to arrive at an estimate of the company's share price. To provide structure the assignment should include the points listed below:

The final submission of the assignment should include the following:

Part 1: Conduct Financial Performance and Analyse Current Issues (10%)

In this section, students are expected to provide:

- An evaluation of the company's brief recent history and financial performance over time and also include peer group analysis.
- Conduct ROE for the company following the DuPont ROE approach and include peer group comparison.
- An analysis of the current issues facing the company, the industry it operates in, and explain the impact of the issues on the company's future earning.

Part 2: Estimate Valuation Models (15%)

The second part/section of the assignment should contain the estimation of the value of the company's share using:

➢ Dividend discount/valuation model (DDM)
➢ Free cash flow to equity model (FCFE)

You are expected to use the Capital Asset Pricing Model (CAPM) - discussed in topic 3 - to estimate the required rate of return or discount rate needed for each model. For CAPM estimation, you are required to calculate the following:

1. **Beta:** You cannot pick a beta value estimated elsewhere (e.g., Bloomberg) and use it in your report. Follow topic 3 lecture notes and relevant chapter (chapter 3) of the prescribed textbook to estimate the beta of the company and attach details of your work as an appendix. Also adjust the raw beta using appropriate methodology (refer to topic 3 lecture notes).

2. **Risk-Free Rate:** Use 10 years Govt. Bond Yield as a proxy for the risk-free rate. Indicate any advantages or disadvantages if there are any.

3. **Market Risk Premium:** The estimation of the <u>expected</u> market risk premium is crucial. You must carefully explain what you do and any assumption you make while estimating market risk premium.

   - **Risk Premium Estimation**
   To estimate the risk premium, first, you have to estimate the expected market return (ASX200 is your market portfolio). Then, subtract the RFR from the expected market return and arrive at your market risk premium.

Once you estimate these three figures (1-3) you will be able to estimate the required rate of return or discount rate following CAPM that can be used in valuation models.

Important points to be covered in Part 2:

- Explain any assumptions made in implementing the models.
- Where appropriate, explain how you arrived at the variables you are using. E.g., it is not enough to say you are assuming a 2 percent growth rate. You would be expected to provide justification/motivation of how you arrive at 2 per cent growth rate.

Part 3: Evaluate/Discuss the value/price of the company (5%)

Comment on your valuations from part 2, including a discussion of possible explanations of why your valuations differ from the current/recent share price. If appropriate, discuss why some of the above models may be unsuitable for valuing the company.

Maximum <u>word limit</u> for the Company Valuation Assignment is 6,000 words excluding executive summary and appendices.

Note:
Every single member of the syndicate is expected to do a part of implementing the valuation models. That is to say, there should not be the situation where a member only does the history and financial performance of the company without any input in the actual implementation of valuation model.

The focus of this assignment is on the valuation, specifically generating the inputs into the valuation process and applying valuation models to these inputs to arrive at a range of share price estimates. The requirements outlined above have been designed to aid this process. For the discounted cash flow valuation models the primary requirement is to produce the appropriate expected return measures and discount rates to use in the models.

It is important that forecasts of expected returns reflect the impact of the factors identified as current issues facing by the company. A common mistake is to identify a range of issues which will impact on the company's future earnings or cash flows, but then produce a set of return forecasts which are simply extrapolations of historical returns, ignoring the impact of the factors identified as current issues. The development of return estimates requires judgement; it is not simply a statistical or mathematical forecasting exercise.

References/Resources for group assignment

Islam, S.Z., Fundamental of Investment, Corpus Education (2016).

Reilly, Frank K. and Keith C, Brown, Investment Analysis and Portfolio Management (10th Edition), Thomson South-Western (2012): Chapters 10, 11, 12, 13, and 14. [Much of the material in these chapters is covered in earlier courses and these chapters should be used for revision purposes].

Search Bloomberg, Yahoo! Finance, Google Finance site for business and financial market news. These deliver world economic news, stock futures, stock quotes, & personal finance advice.

Damodaran, Aswath, *Investment Valuation [3nd Edition]*, available online at: http://people.stern.nyu.edu/adamodar/New_Home_Page/Inv3ed.htm

Assignment submission procedure

All assignments must be submitted **online** through the course Blackboard as well as in a **hard copy**. They must be accompanied by an assignments cover sheet and submitted through Turnitin on the blackboard, a plagiarism checking tool. For information on Turnitin see:

Student FAQ, http://www.rmit.edu.au/academicintegrity/studentfaq
Student procedures and account setup (pdf),
http://www.rmit.edu.au/academicintegrity/studentprocedures
Turnitin student information page,
Student Quick Guide - How to submit an assignment through Turnitin available from the ADG webpage; http://www.rmit.edu.au/bus/adq

Turnitin will assess your work in approximately one minute, and return a colour coded response for the originality of the text.

Penalties for late submission

All assignments will be marked as if submitted on time then the mark awarded will be reduced by **10%** each day (or part of a day) it is late. Assignments that are late by 7 days or more will not be marked and will be awarded zero marks.

Presentation of Report

The report is to be presented in the form of a business report. It should have an executive summary, outlining the main findings, at the beginning. The remainder can be structured in line with the above points. **Calculations should be included in appendices.**

Reports are to be typed in Arial/Times new roman with a font size 12 in single or one and one-half space on A4 paper. Reports are to be stapled with two staples down the left-hand side, or secured with a fold-back clip. Do <u>not</u> attach information you have used in compiling the report, i.e. annual reports, newspaper articles etc., to the report.

Group Composition

Group members are **strictly limited to three (3) students**. Experience has shown that numbers either smaller or larger than these are dysfunctional. ***Group composition is to be formed within week 2.***

Contribution Statement

All groups are expected to include a **CONTRIBUTION STATEMENT** detailing (the form can be found in the Blackboard), in exact terms, what each person in the group has done, when you submit the assignment.

Please note marks of the group assignment will be allocated to each members based on their contribution percentage. That is all students are expected to participate and contribute to the group assignment. Free riding would not be rewarded. As such students would be given a <u>zero mark</u> if it is shown that s/he did not contribute enough to the final output.