

**City University of Hong Kong
Course Syllabus**

**offered by Department of Economics and Finance
with effect from Semester A 2017/18**

Part I Course Overview

Course Title: Corporate Valuation

Course Code: EF 4314

Course Duration: 1 Semester

Credit Units: 3

Level: B4

Proposed Area: Arts and Humanities
 Study of Societies, Social and Business Organisations
 Science and Technology
(for GE courses only)

Medium of Instruction: English

Medium of Assessment: English

Prerequisites: FB2100/CB2100 Accounting I or CB2100 Introduction to Financial Accounting
AND
FB3410 Financial Management or CB3410 Financial Management
(Course Code and Title)

Precursors: Nil
(Course Code and Title)

Equivalent Courses: Nil
(Course Code and Title)

Exclusive Courses: Nil
(Course Code and Title)

Part II Course Details

1. Abstract

This course aims to provide students with advanced level training in analyzing corporate fundamentals with emphasis on financial statement analysis and security valuation.

The coursework and final examinations will assure students' understanding of the various valuation models and theories. The group projects and in-class discussions will help students to discover and innovate by applying valuation techniques to practical issues. Students are encouraged to perform financial statement analysis and valuation on real firms and compare results with those from the databases and/or media reports. Through these activities, students will also be able to comprehend the difficulties and limitations of valuation, and strengthen their discovery skills on examining factors affecting valuation of firms.

2. Course Intended Learning Outcomes (CILOs)

(CILOs state what the student is expected to be able to do at the end of the course according to a given standard of performance.)

No.	CILOs [#]	Weighting* (if applicable)	Discovery-enriched curriculum related learning outcomes (please tick where appropriate)		
			A1	A2	A3
1.	Identify various types of business activities and describe their reporting in financial statements	15%	√	√	
2.	Reformulate published financial statements to facilitate valuation Evaluate the quality of corporate financial statements Comprehend the issue of accounting quality and the convergence of international financial reporting	25%	√	√	√
3.	Price firms/projects with various valuation technologies Evaluate the performance and the value of a company based on its financial statements. Assess the off-balance sheet risk items in an international setting (e.g., related to gains/losses due to exchange rates and derivatives price movements) and their effect on firm performance; Comprehend the differences in equity valuation in different financial markets	50%	√	√	√
4.	Evaluate the pros and cons of various technologies and comprehend the limitations of valuation	10%	√	√	√
		100%			

* If weighting is assigned to CILOs, they should add up to 100%.

Please specify the alignment of CILOs to the Gateway Education Programme Intended Learning outcomes (PILOs) in Section A of Annex.

A1: Attitude

Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.

A2: Ability

Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to self-life problems.

A3: Accomplishments

Demonstrate accomplishment of discovery/innovation/creativity through producing /constructing creative works/new artefacts, effective solutions to real-life problems or new processes.

3. Teaching and Learning Activities (TLAs)

(TLAs designed to facilitate students' achievement of the CILOs.)

TLA	Brief Description	CILO No.				Hours/week (if applicable)
		1	2	3	4	
Lectures and in-class discussion	Students are encouraged to think critically and logically and would be asked to respond to questions. Additionally students should be encouraged to solve them. In class, discussions are highly encouraged as it will enhance students' communication skills, critical thinking and develop students' creative and innovative abilities. The discussions will also cover current news events relevant to corporate valuations. Students need to critically analyze them from different perspectives, and to discover the issues on valuation.	√	√	√	√	3 hours seminar and student self study
Group Project and presentation	Group projects may take the form of case study or essay writing. Students are required to read the financial reports of the assigned companies and perform valuation analysis. Students are expected to discover and learn to handle the technical and practical issues involved in valuation. From the group projects, students will acquire practical skills including: <ol style="list-style-type: none"> 1. Interpreting financial reports, including notes to accounts 2. Reformulating the financial statements and form a good understanding of company operations 3. Obtaining analyst earnings forecast from the databases, financial media, and other sources 4. Estimating the cost of capital and use it in valuation. Students will also be able to discuss the limitations and difficulties of valuation, and to comprehend the incentive problems of analysts (e.g., conflicts of interests, the herding behaviour).	√	√	√	√	
Individual assignments	The assignments include basic model calculation and financial report analysis, which enable students to acquire a deeper understanding and develop good financial analysis skills.	√	√	√	√	

4. Assessment Tasks/Activities (ATs)

(ATs are designed to assess how well the students achieve the CILOs.)

Assessment Tasks/Activities	CILO No.				Weighting*	Remarks
	1	2	3	4		
Continuous Assessment: 40%						
Individual assignments	√	√	√	√	40%	
Group Project and presentation	√	√	√	√		
Examination: 60% (duration: 2.5 hours, if applicable)						
Final examination	√	√	√	√	60%	
<i>* The weightings should add up to 100%.</i>					100%	

Students are required to pass both coursework and examination components in order to pass the course.

5. Assessment Rubrics

(Grading of student achievements is based on student performance in assessment tasks/activities with the following rubrics.)

Assessment Task	Criterion	Excellent (A+, A, A-)	Good (B+, B, B-)	Fair (C+, C, C-)	Marginal (D)	Failure (F)
Final examination (2.5 hour exam)	<ol style="list-style-type: none"> 1. Ability to present material in a logical manner 2. Ability to correctly compute financial ratios 3. Ability to identify why a firm performs well 	Outstanding	High	Moderate	Basic	Not reaching marginal level
Individual assignments	Ability to apply class material to assigned problems	Outstanding	High	Moderate	Basic	Not reaching marginal level
Group Project and presentation	Ability to demonstrate critical understanding of the course material	Outstanding	High	Moderate	Basic	Not reaching marginal level

Part III Other Information (more details can be provided separately in the teaching plan)

1. Keyword Syllabus

Introduction to investing and valuation
Business activities and financial statements
Historical cost accounting, Mark-to-market accounting, fair value accounting
Dividend discount valuation
Discounted free cash flow valuation
The residual earnings (RE) valuation model
The abnormal earnings growth (AEG) valuation model
The residual operating income (ReOI) valuation
Dirty-surplus accounting and comprehensive income
Hidden dirty-surplus accounting losses relating to employees stock options
The reformulation and analysis of the statement of shareholders' equity
The reformulation and analysis of Balance sheet and income statement
The reformulation and analysis of Cash flow statement
Earnings quality

2. Reading List

2.1 Compulsory Readings

(Compulsory readings can include books, book chapters, or journal/magazine articles. There are also collections of e-books, e-journals available from the CityU Library.)

1.	Stephen Penman, Financial Statement Analysis and Security Valuation (McGraw Hill, current edition)
----	--

2.2 Additional Readings

(Additional references for students to learn to expand their knowledge about the subject.)

1.	Lecture notes, newspaper clippings and selected articles from Journal of Finance, Financial Analyst Journal, Review of Accounting Studies and other sources. In particular, the following articles are very useful for you to gain an overall picture of this course. – Nissim, D. and Penman, S.H., 2001, Ratio Analysis and Equity Valuation: from Research to Practice, Review of Accounting Studies 6: pp.109-154. – Lee, C.M.C and Swaminathan, B., 1999, Valuing the Dow: A Bottom-Up Approach, Financial Analysts Journals 55, pp.4-23.
2.	Stowe, J.D., Robinson, T.R., Pinto, J.E., and McLeavey, D.W., 2002, Analysis of Equity Investments: Valuation, AIMR Publishing, Chartered Financial Analyst (CFA) Examination study text.
3.	Koller, T., Goedhart, M., and Wessels, D. Valuation: Measuring and Managing the Value of Companies, McKinsey & Company Inc., 4th Edition, 2004.