

Equity Valuation Methods of Analysts in
Malaysia: A Study of Financial Analyst
Coverage of AirAsiaBerhad 2007 - 2011

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Abstract

This study examined the valuation methods used by sell-side financial analysts to value AirAsiaBerhad's (AirAsia) shares. Using content analysis methodology and a survey of analysts who were covering the share, earnings-based valuations appeared to be dominant when AirAsia reported a profit and asset-based valuations appeared to be dominant when AirAsia reported a loss. Our results suggested that the Price-to-Earnings (P/E) ratio is analysts' preferred earnings-based valuation method. However, we could not conclusively identify their preferred asset-based valuation method. Our results also indicated that analysts changed valuation methods during their coverage of AirAsia's shares, switching between earnings-based and asset-based valuations as the business cycle went up and down. During a period of transition, such as when the industry was recovering from a downcycle, we found that analysts constructed a hybrid model, by combining earnings-based and asset-based valuations, to arrive at a "blended target price". We also found that analysts rarely used beta in their valuation and focused on a share price's potential upside, market capitalization and liquidity when deciding whether they should initiate coverage on a share.

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TABLE OF CONTENTS

1.0 <u>Introduction</u>	1
1.1 Buy-side and Sell-side	1
1.2 Impact of Analyst Reports on Stock Prices	3
1.3 Background Information on AirAsiaBerhad	4
1.4 Problem Statement	7
1.5 Scope of Study	7
1.6 Research Questions	8
1.7 Significance of Study	8
1.8 Organization of Study	9
2.0 <u>Literature Review</u>	10
2.1 How Analysts Arrive at Investment Recommendations	10
2.2 Previous Studies in Accounting Literature	11
2.3 Valuation Models in Finance Theory	13
2.4 Previous Studies in Finance Literature	19
2.5 Accuracy of Analysts' Forecasts	22
2.6 How Analyst Recommendations Affect Stock Prices	23
2.7 Investment Banking Conflict	24
2.8 Could There Be Too Much Analyst Coverage?	25
3.0 <u>Research Methodology</u>	27
3.1 Firm Selection	27
3.2 Data Collection	28
3.3 Selection Criteria	28
3.4 Study Design	29

TABLE OF CONTENTS

4.0 <u>Research Findings</u>	31
4.1 Descriptive Analysis	31
4.2 Valuation Methods Used by Analysts	40
4.3 How Did Analysts Determine the Target Forward P/E Ratio?	58
4.4 Did Analysts Change Valuation Methods?	62
4.5 Did Analysts Discuss Beta In Their Reports?	68
4.6 Reasons for Initiating coverage	71
5.0 <u>Conclusion</u>	73
Bibliography	i
Appendices	

LIST OF FIGURES

Figure 1	: Breakdown of Phase I Sample by Investment Bank Type	32
Figure 2	: Breakdown of Investment Banks in Phase I Sample by Type	32
Figure 3	: Length of Phase I Sampled Reports (Excluding Disclosures)	33
Figure 4	: Breakdown of Phase I Sample by Report Type	35
Figure 5	: Breakdown of Phase I Sample by Recommendation Type	36
Figure 6	: Breakdown of Phase I Sample by Recommendation Change	37
Figure 7	: Breakdown of Coverage Initiation Reports in Phase I Sample by Recommendation Type	38
Figure 8	: Breakdown of Phase II Sample by Investment Bank Type	39
Figure 9	: Breakdown of Phase I Sample by Year	40
Figure 10	: Number of Analysts in Phase I Sample Who Used Type I Valuation Methods	46
Figure 11	: Percentage of Analysts in Phase I Sample Who Used Type I Valuation Methods	47
Figure 12	: Number of Analysts in Phase I Sample Who Used Type II Valuation Methods	49
Figure 13	: Percentage of Analysts in Phase I Sample Who Used Type II Valuation Methods	50

LIST OF FIGURES

Figure 14	: Percentage of Analysts in Phase I Sample Who Used Type I Valuation Methods and P/E Ratio to Value AirAsia's Shares	53
Figure 15	: AirAsia's Reported Net Income	53
Figure 16	: How Analysts in Phase II Sample Value Airlines' Shares	55
Figure 17	: How Analysts in Phase I Sample Determined A Target Forward P/E Ratio for AirAsia	59
Figure 18	: How Analysts in Phase II Sample Determine A Target Forward P/E Ratio for AirAsia	61
Figure 19	: Valuation Methods Changed According to Business Cycle	66
Figure 20	: Breakdown of Phase I Sample by Whether Beta was Provided	68
Figure 21	: Breakdown of Phase II Sample According to Whether Analysts Provide Beta in Their Reports	69

LIST OF TABLES

Table 1	: Descriptive Statistics	31
Table 2	: Valuation Methods Documented During Phase I – ContentAnalysis	42
Table 3	: Documented Valuation Methods Segregated According to Type I and Type II	45
Table 4	: Type I Valuation Methods Research Results	46
Table 5	: Type II Valuation Methods Research Results	49

APPENDICES

- Appendix I : AirAsiaBerhad's Balance Sheet 2005 – 2010
- Appendix II : AirAsiaBerhad's Income Statement 2005 – 2010
- Appendix III : AirAsiaBerhad's Statement of Cash Flows 2005 – 2010
- Appendix IV : AirAsiaBerhad's Unaudited Condensed Consolidated Statement of Financial Position for the Quarter Ended 31 March 2011
- Appendix V : AirAsiaBerhad's Unaudited Condensed Consolidated Income Statement for the Quarter Ended 31 March 2011
- Appendix VI : AirAsiaBerhad's Unaudited Condensed Consolidated Statement of Cash Flows for the Quarter Ended 31 March 2011
- Appendix VII : Analysts' Survey Questionnaire

ABBREVIATIONS

BV	Book Value
BVPS	Book Value per Share
CAPM	Capital Asset Pricing Model
COE	Cost of Equity
DCF	Discounted Cash Flow
DDM	Gordon's Dividend Discount Model
EBITDA	Earnings Before Interest, Tax, Depreciation, and Amortization
EBITDAR	Earnings Before Interest, Tax, Depreciation, Amortization and Rent
EPS	Earnings Per Share
EV	Enterprise Value
FCF	Free Cash Flows
KLCI	FTSE Kuala Lumpur Composite Index
PEG	P/E-to-Growth Ratio
NTA	Net Tangible Asset
P/B	Price-to-Book Ratio
P/E	Price-to-Earnings Ratio
P/NTA	Price-to-Net Tangible Asset Ratio
RNAV	Realisable Net Asset Value
ROE	Return on Equity
TV	Terminal Value
UK	United Kingdom
US	United States of America