
IntanSurayaHashim
CGA 080068
Graduate School of Business
Universiti Malaya
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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