

3.0 RESEARCH METHODOLOGY

The valuation methods used by analysts to value a public-listed firm's shares and arrive at a buy, sell, or hold recommendation remain under-researched, particularly in the Malaysian context. This study will draw on the works of Bradshaw (2002), Demirakos *et. al* (2004) and Jenkins and Kane (2006) to study the valuation methods used by analysts to value the shares of one Malaysian public-listed firm that is operating in one industry. This study uses a mixed-method approach and was conducted in two phases. In Phase I, we applied content analysis methodology on a sample of analyst reports to determine how analysts valued shares. In Phase II, we surveyed analysts currently covering the share in their portfolio to supplement our findings in Phase I.

3.1 Firm Selection

Unless one is a client, analyst reports are difficult to obtain directly from investment banks and brokerage firms. This limited our sampling to a sample of convenience. We contacted several public-listed companies in Malaysia requesting for assistance in our study and received a positive response from AirAsia.

3.2 Data Collection

Copies of analyst reports were generously provided by AirAsia's Investor Relations personnel. The firm supplied us with an initial sample of 355 analyst reports dated May 2007 through February 2011 and published by 27 local and foreign investment banks and brokerage houses. For ease of reference, we will refer to these investment banks and brokerage houses as "investment banks" from this point forward.

3.3 Selection Criteria

From the initial sample of 355 analyst reports, 255 reports were selected because they included a discussion of the valuation method used by the analyst to arrive at a forecast fair value for a share of AirAsia's stock.

The 100 reports that were excluded consisted of mainly one or two-page company updates which were intended to keep investors informed of the latest events at or involving the firm. Examples of these include (i) commentaries on news releases by the firm such as AirAsia's announcements on their joint venture (JV) partners in the Philippines and Vietnam, (ii) cautionary notes to investors informing them of changing trends in oil prices, a key driver of AirAsia's earnings, (iii) reiterations of the analysts' expectations for the firm's upcoming interim or annual results, and (iv) reiterations of

analysts' target prices and investment recommendations pursuant to interim or full year results announcements that are in-line with their forecasts.

After excluding these 100 reports, our final sample consisted of 255 analyst reports from 27 local and foreign investment banks dated May 2007 through February 2011.

3.4 Study Design

This two-phase study used a mixed-method approach to investigate the valuation methods used by analysts to value AirAsia's shares, whether they changed valuation methods during their coverage of the share and the factors that were considered prior to initiating coverage on a share. Phase I of the study applied content analysis methodology and is descriptive in nature. To supplement our findings in Phase I, we followed up with Phase II, a survey of analysts currently covering the stock.

a) Phase I – Content Analysis

We read each analyst report in our final sample of 255 and recorded the details of the valuation methods used by analysts to value AirAsia's shares.

b) Phase II – Analysts’ Survey

To supplement our findings in Phase I of the study, we prepared a survey for analysts currently covering the stock. Of the 27 investment banks represented by our sample, we excluded seven because their last report was dated more than 12 months ago or because the analyst report did not provide the name and e-mail address of the analyst who wrote the report. This yielded 20 local and foreign investment banks. We e-mailed our survey to analysts and research teams at the 20 investment banks to request for their participation in our survey and an appointment for a follow-up, semi-structured interview. We received a positive response from 12 analysts for our e-mail survey but did not receive a response to our interview request. A copy of our survey questionnaire can be found in **Appendix VII**.

We recorded the data from our survey and compared them with our findings in Phase I of the study.