ផ្សារមូលបត្រកម្ពុជា

CSX

Fundamental Analysis

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Introduction

1.1.Definition

- *Fundamental analysis is a method of evaluating a security* ***to measure its intrinsic stock value*** *by examining related economic, financial and qualitative and quantitative factors.*

Some of the factors to consider when analyzing the fundamentals of a company include:

1. *Is the company making a profit?*
2. *Can the company repay its debt?*
3. *Is there potential for growth?*
4. *What is the management like?*

Introduction (Con't)

1.2 Importance of Fundamental Analysis

1.3.1. ***Fundamental analysis*** *is the best tool to find the proper value of a stock by estimating the future earnings.*

*1.3.2.**Fundamental analysis** will protect investors from fluctuating market conditions and help investors to maximize the return by finding undervalued stocks.*

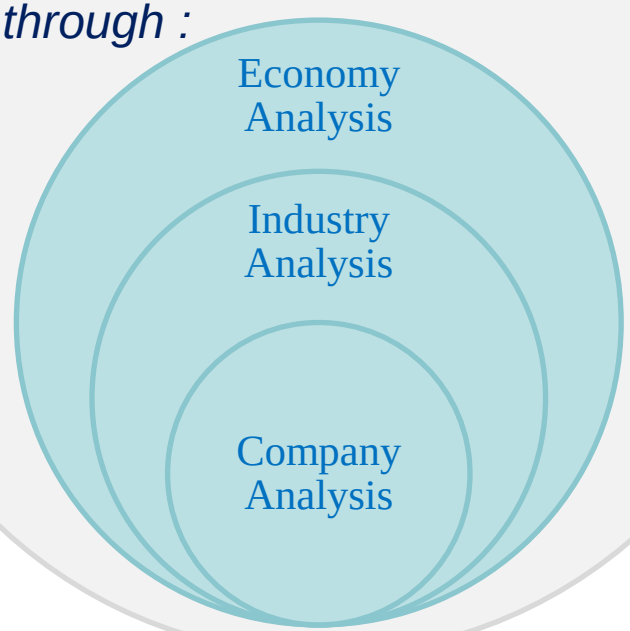
Introduction (Con't)

1.3 Importance of Fundamental Analysis

1.3.3 Answers the following questions:

- *Is the company's revenue(sales) growing?*
- *Is it actually making a profit?*
- *Is it in a position strongenough to outrun its competitors in the future?*
- *Is it able to repay its debts?*

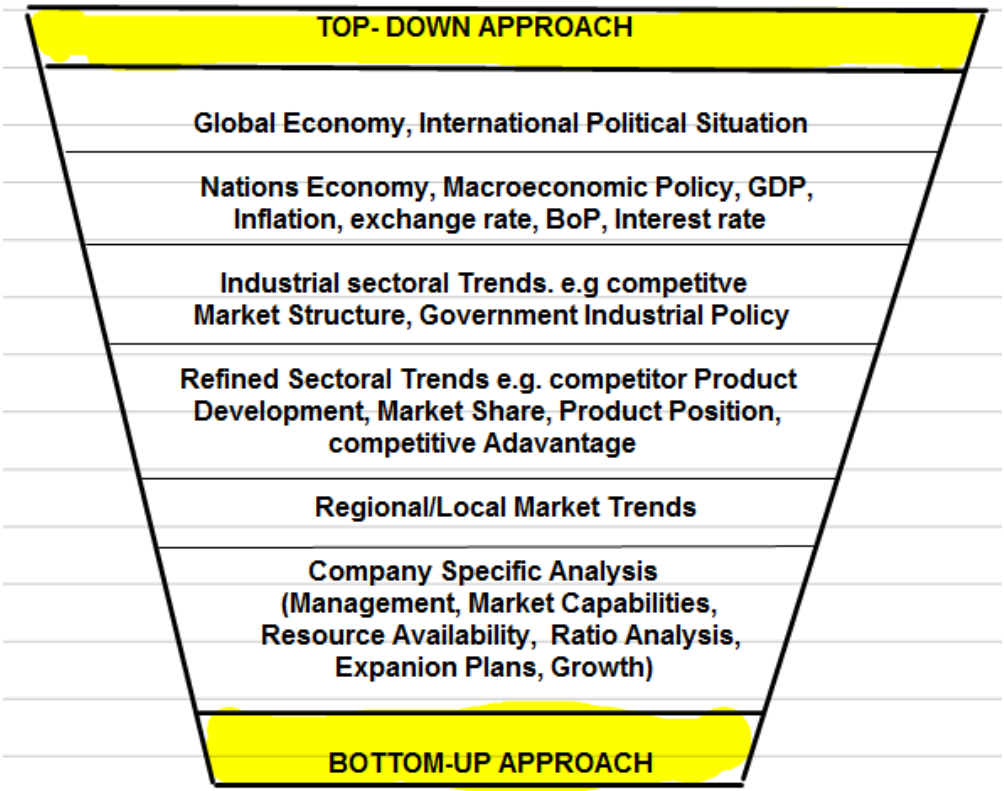
1.3.4.Fundamental analysis allows investors appraise the intrinsic value of shares through :



Introduction (Con't)

1.3 Importance of Fundamental Analysis

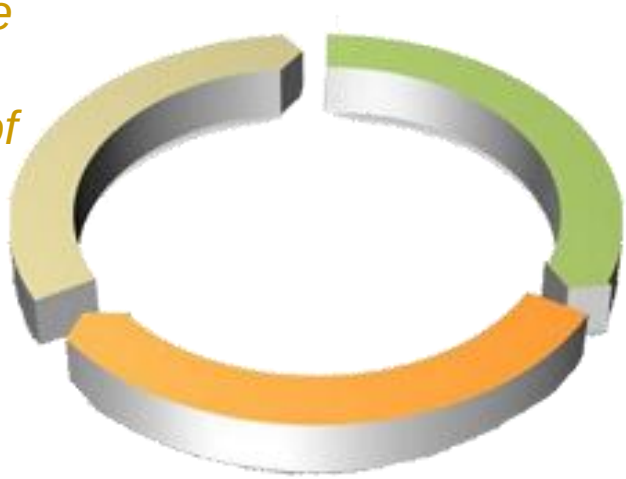
- Two Ways of Fundamental Analysis



Economy Analysis

2.1 Concept

Macro economy *is the dominant factor for fundamental analysis of a company.*



There are so ***many check points*** *including global economy, domestic economy, politics, unexpected events such as war and natural disasters.*

Despite the importance of the macro economy analysis, we do not recommend to spend too much time on it.

Economy Analysis(Con't)

2.2 Politics

Politics has a widespread influence on a country's economy, especially in the countries where the politics is unstable.

When international fund managers select stocks, the country's political stability is a key requirement for the investment.

Unstable politics may cause an abrupt change of financial system, interest rate, FX rate, etc, which raise the investment risk.

Economy Analysis(Con't)

2.3. Macro Economy Variables

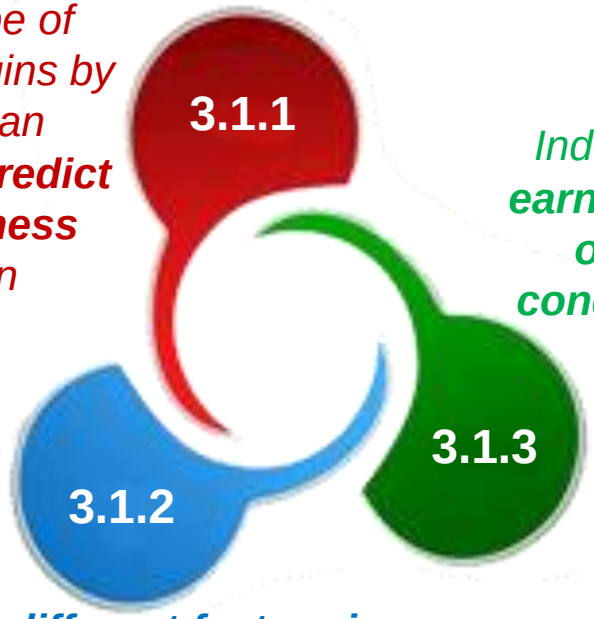
- *Macro economy variables include GDP, exchange rates, balance of payments, interest rate, inflation, unemployment rate, etc.*
- *Economic Indicators' Impacts on the stock market is seen below.*

INDICATOR	Good Impact	Bad Impact
GDP/Growth Rate	High Growth Rate	Slow Growth Rate
Domestic Savings Rate	High	Low
Interest Rates	Low	High
Tax Rates	Low	High
Inflation	Low	High
IIP/Industrial Production	High	Low

Industry Analysis

3.1. Concept

Industry analysis *is a type of investment research that begins by focusing on the status of an industry. The purpose is to* ***predict the profitability*** *and* ***business growth*** *of the industry in the future.*

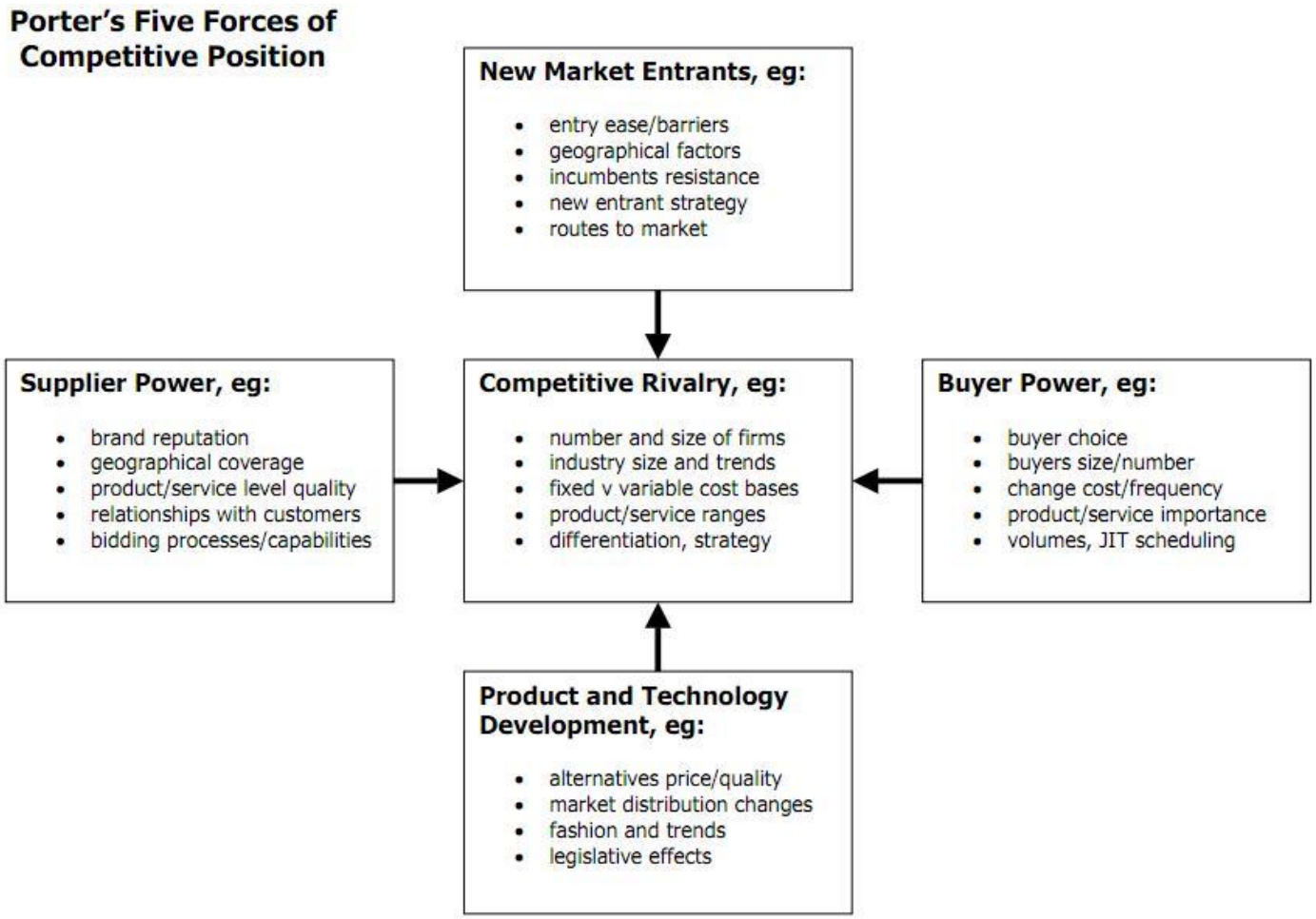


Industry analysis covers ***sales and earnings trend, government policy on the industry, competitive conditions, stock price trend, and so on****.*

Each industry has ***a different feature in terms of growth stage****, earnings trend, etc, which implies that it is not justifiable to compare multi industries by only one valuation tool.*

Industry Analysis(Con't)

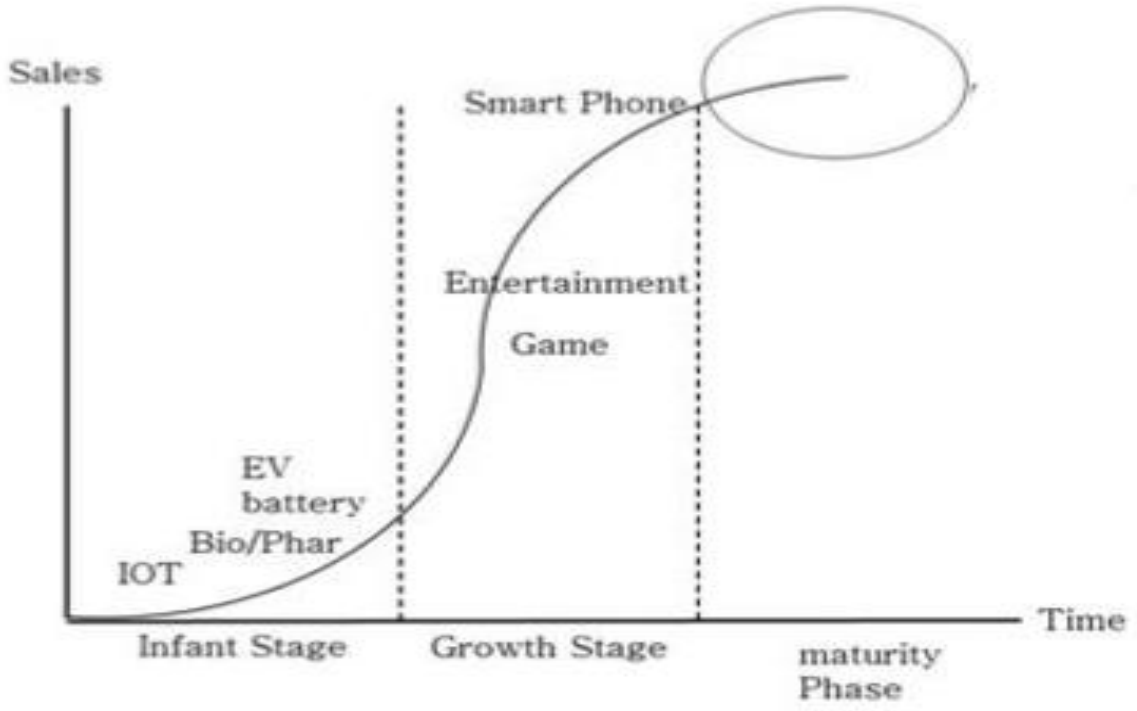
3.2. Porter's Five Forces of Competitive Position



Industry Analysis(Con't)

3.3. Industry Growth Curve

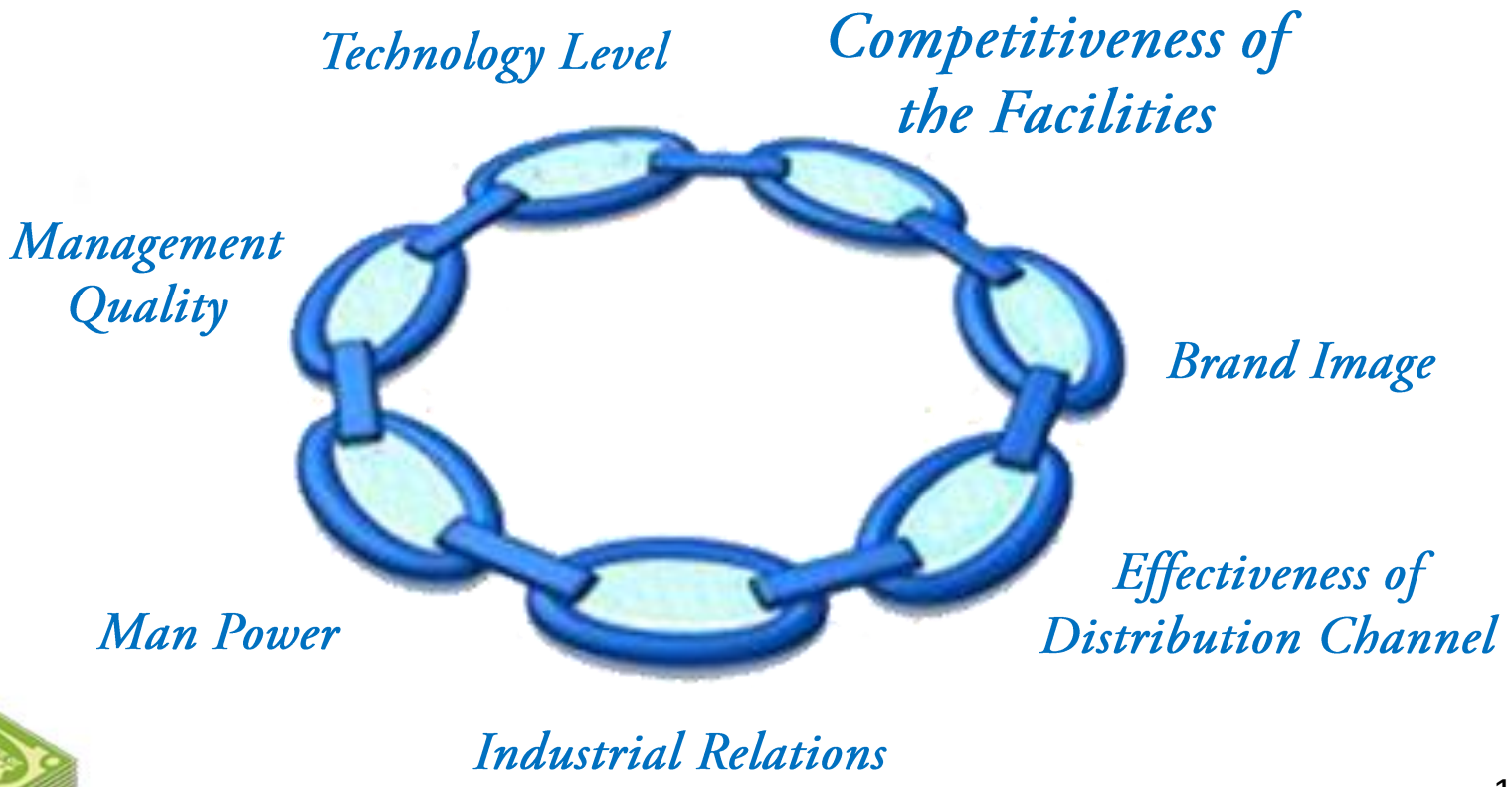
- *All the industries have a similar growth curve, which has infant, growth, and maturity stages.*



Company Analysis

4.1. Qualitative Analysis

Qualitative analysis covers a company's



Company Analysis(Con't)

4.1. Qualitative Analysis (2)

The following questions will help you to get the solutions for the qualitative analysis.

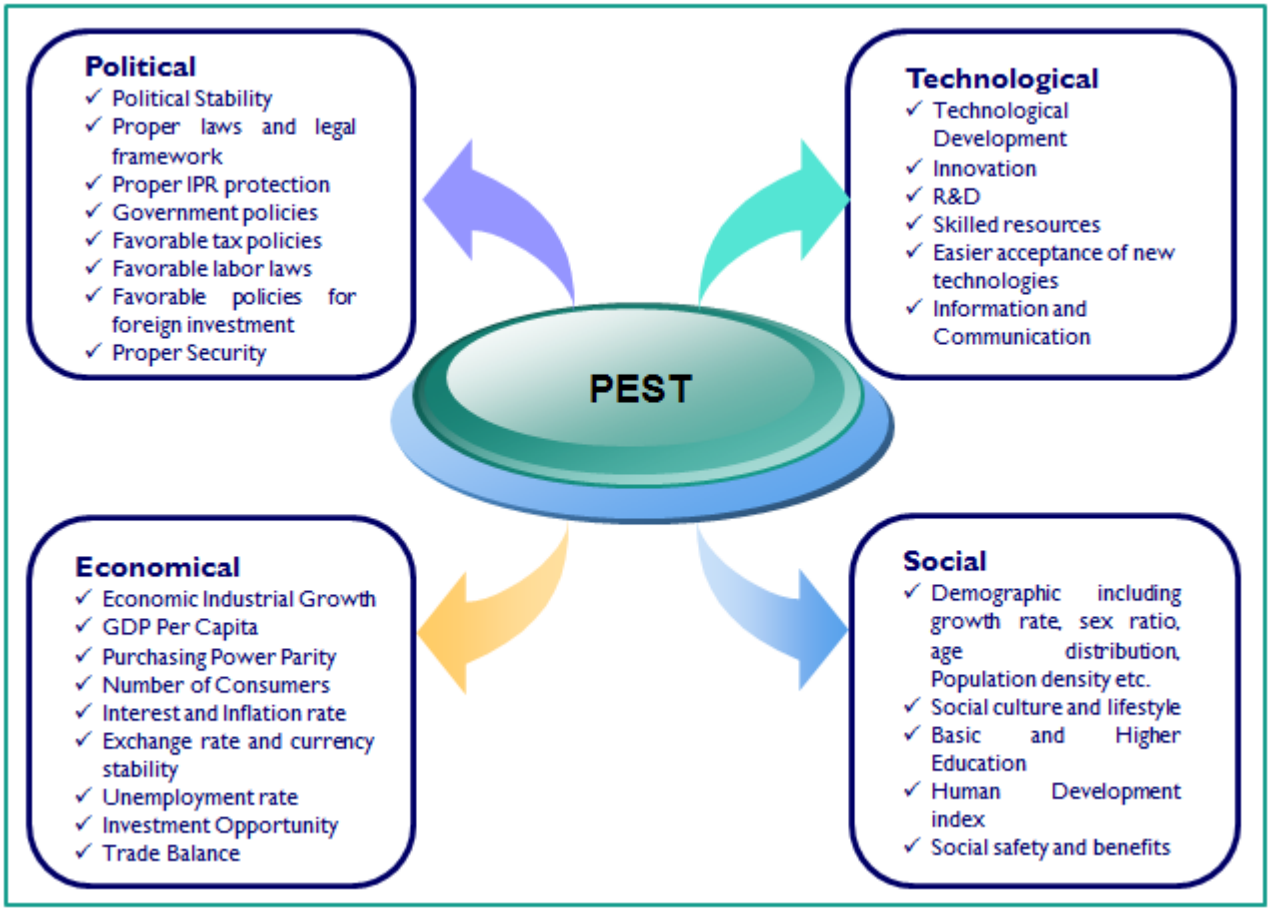
- *Is the company run by family members or professional managers?*
- *What is the public image and reputations of the company?*
- *Does the company have the competitive technology and what kind of efforts does it make for R&D?*
- *Does the facility have competitiveness in terms of quality and economies of scale?*
- *Does the company have effective distribution channel and marketing activities?*
- *How is the company's industrial relations? Does it communicate well with the market and minority shareholders?*
- *How competitive is the overall man power of the company?*

Company Analysis

4.2. SWOT Analysis

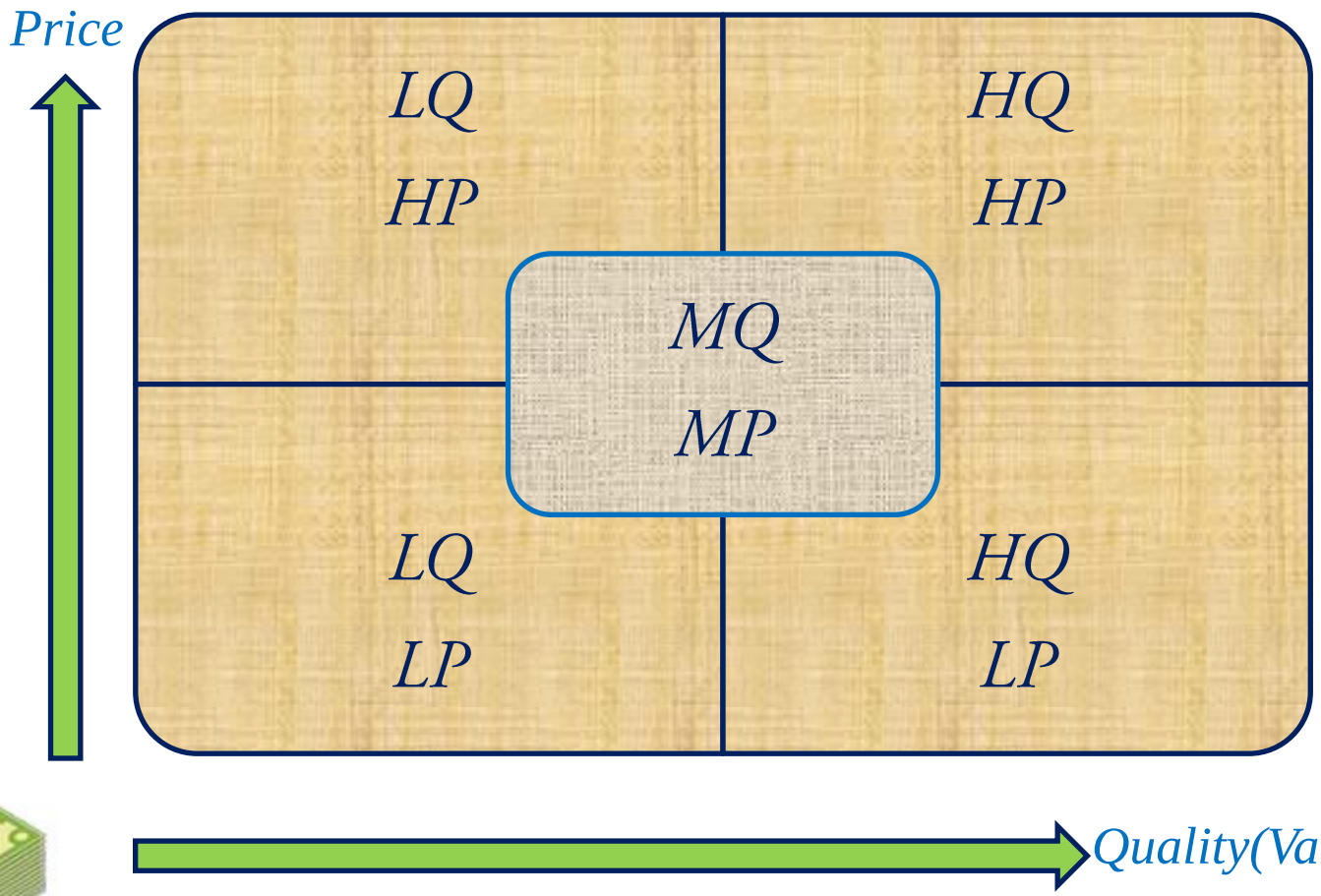
Company Analysis(Con't)

4.3. PEST Analysis



Company Analysis(Con't)

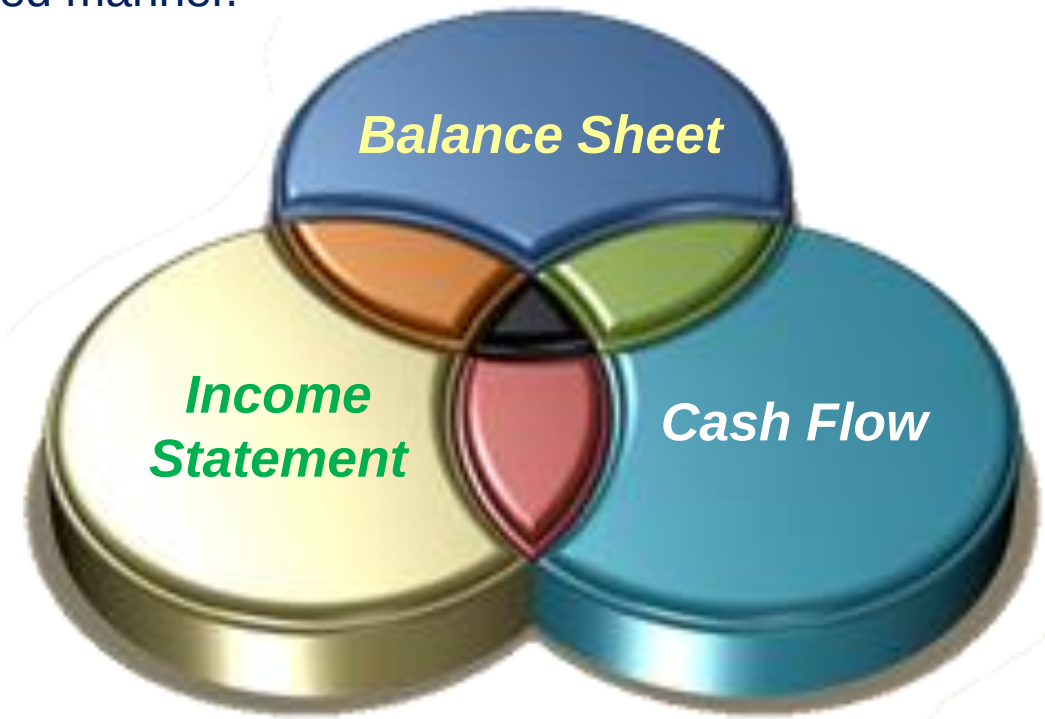
4.4. Price-Quality Matrix Analysis (1)



Company Analysis(Con't)

4.5. Financial Statements

- Financial Statement is ***a formal record of the financial activities*** and ***position of a company***. Relevant financial information is presented in a structured manner.



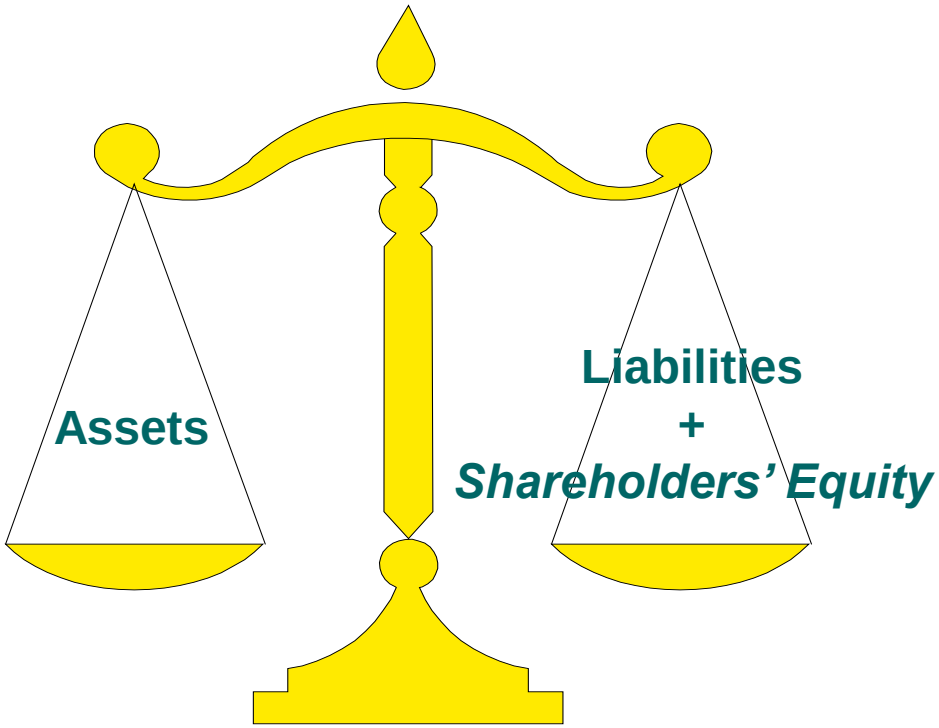
Key Components of Financial Statement

Company Analysis(Con't)

4.5. Financial Statements

4.5.1 Balance Sheet

- The balance sheet: shows ***a company's assets, liabilities and owners' equity*** (or net worth)



Company Analysis(Con't)

4.5. Financial Statements

4.5.1 Balance Sheet

4.5.1.1 Balance Sheet Items

- **Assets**
  - ✓ Current assets :
    - ① *Cash & securities*
    - ② *Accounts Receivable (AR)*
    - ③ *Inventories*
  - ✓ Fixed assets :
    - ① *Tangible assets like PPE (Property, Plant And Equipment)*
    - ② *Intangible assets*

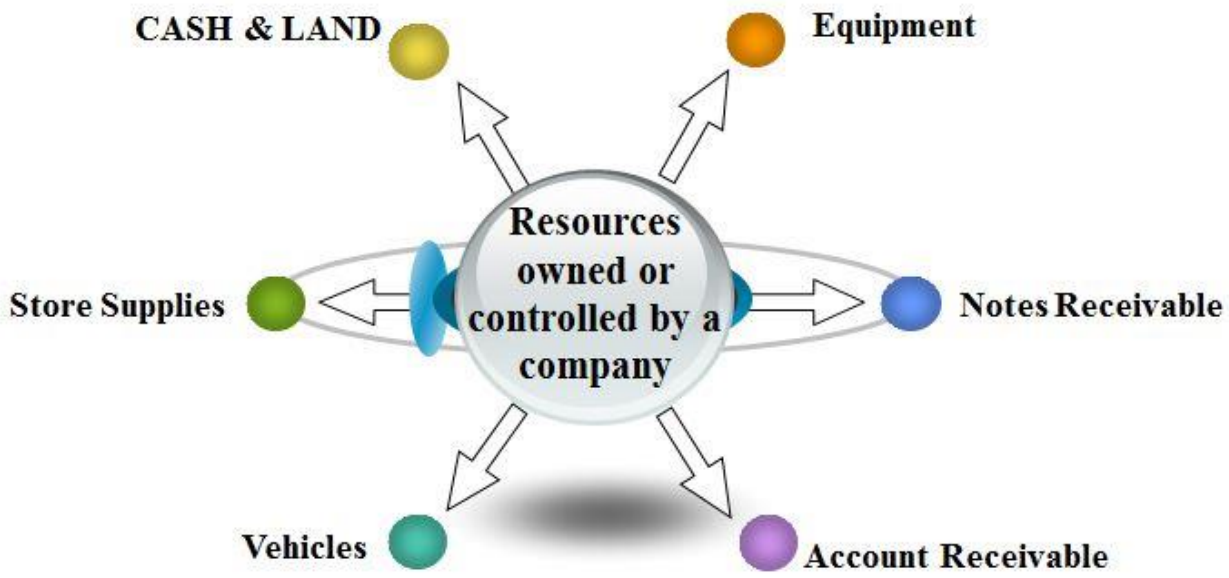
- **Liabilities and Equity**
  - ✓ Current liabilities :
    - ① *Accounts payable (AP)*
    - ② *Short-term debt*
  - ✓ Long-term liabilities
  - ✓ Shareholders' equity

Company Analysis(Con't)

4.5. Financial Statements

4.5.1 Balance Sheet

Assets

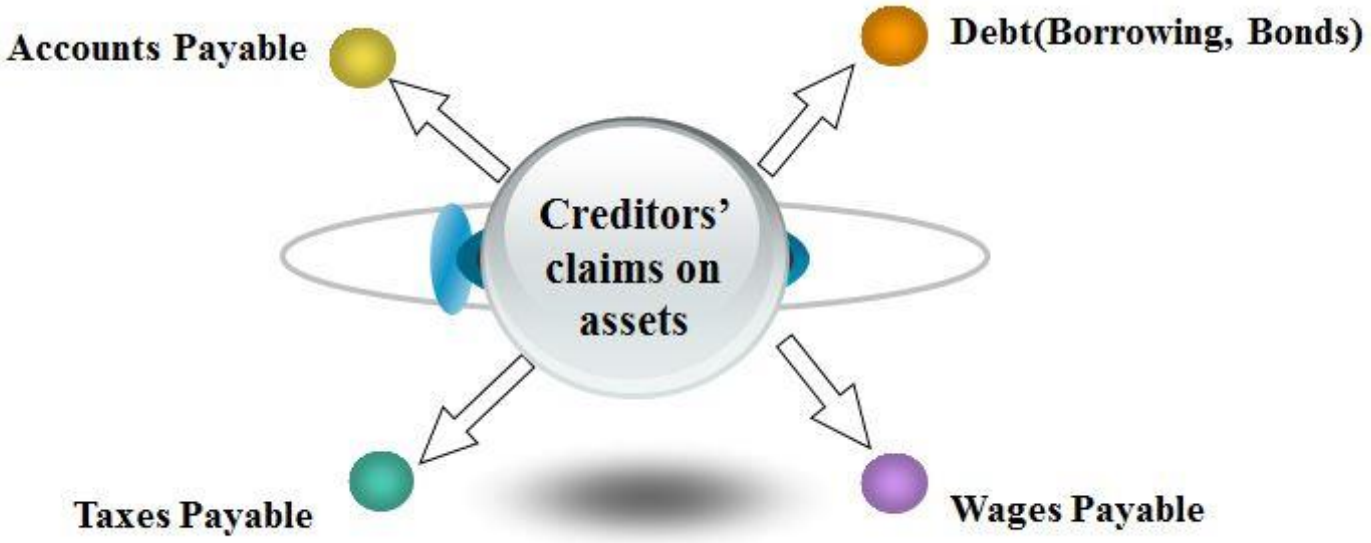


Company Analysis(Con't)

4.5. Financial Statements

4.5.1 Balance Sheet

Liabilities

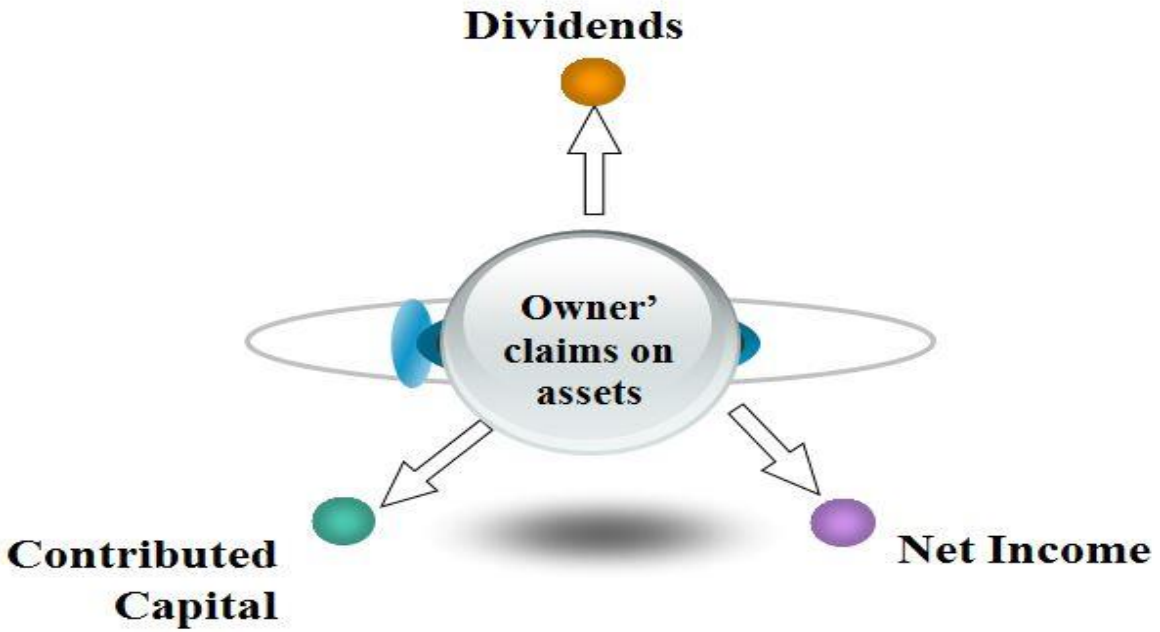


Company Analysis(Con't)

4.5. Financial Statements

4.5.1 Balance Sheet

Equity



Company Analysis(Con't)

4.5. Financial Statements

Phnom Penh Water Supply Authority

Financial Statements			(Mil. KHR)
Balance Sheet	**2012**	**2013**	**2014**
Assets	999,681.23	1,098,976.72	1,166,051.07
▪ Cash	13,976.04	10,568.72	14,962.14
▪ A/R	28,271.47	29,771.08	30,624.91
▪ Inventory	59,712.83	35,083.36	40,501.86
▪ Current Asset	250,043.70	252,538.36	287,958.25
▪ PPE	741,661.05	835,552.69	874,742.67
Liabilities	340,178.47	403,795.09	429,882.45
▪ A/P	45,343.60	29,859.91	21,509.97
▪ Current Liability	60,775.62	56,551.73	53,256.51
Equity	659,502.76	695,181.63	736,168.63
▪ Share Cap.	541,227.28	541,227.28	541,227.28
▪ Retained Earnings	34,420.96	38,088.03	45,747.91

Grand Twin International (Cambodia) Plc.

Financial Statements			(Mil. KHR)
Balance Sheet	**2012**	**2013**	**2014**
Assets	157,369.29	191,272.68	289,976.82
▪ Cash	3,676.67	1,713.18	23,581.79
▪ A/R	101,639.86	134,705.06	194,287.46
▪ Inventory	25,983.22	29,368.69	34,226.47
▪ Current Asset	131,299.74	165,786.93	252,095.72
▪ PPE	25,714.92	24,943.05	37,139.97
Liabilities	22,186.29	26,943.74	29,643.69
▪ A/P	6,626.50	8,302.66	8,415.56
▪ Current Liability	20,298.95	26,943.74	29,643.69
Equity	135,183.00	164,328.94	260,333.14
▪ Share Cap.	31,960.00	31,960.00	40,750.00
▪ Retained Earnings	103,223.00	132,368.94	149,167.14

Company Analysis(Con't)

4.5. Financial Statements

4.5.2 Income Statement

- ***Income Statement***(Profit and loss account) shows the company's revenues and expenses over a period of time.

XYZ Corporation Income Statement	Year 1
Total Revenue	$1,000.00
Cost of Goods Sold	-$300.00
Gross Profit	**$700.00**
Operating Expenses	
Research & Development	-$100.00
Administrative Expenses	-$200.00
Other Operating Expenses	-$100.00
Operating Profit (EBIT)	**$300.00**
Interest Expenses	-$18.00
Profit Before Taxes (EBT)	**$318.00**
Income Tax	-$28.62
Net Income	**$289.38**

Company Analysis(Con't)

4.5. Financial Statements

4.5.2 Income Statement

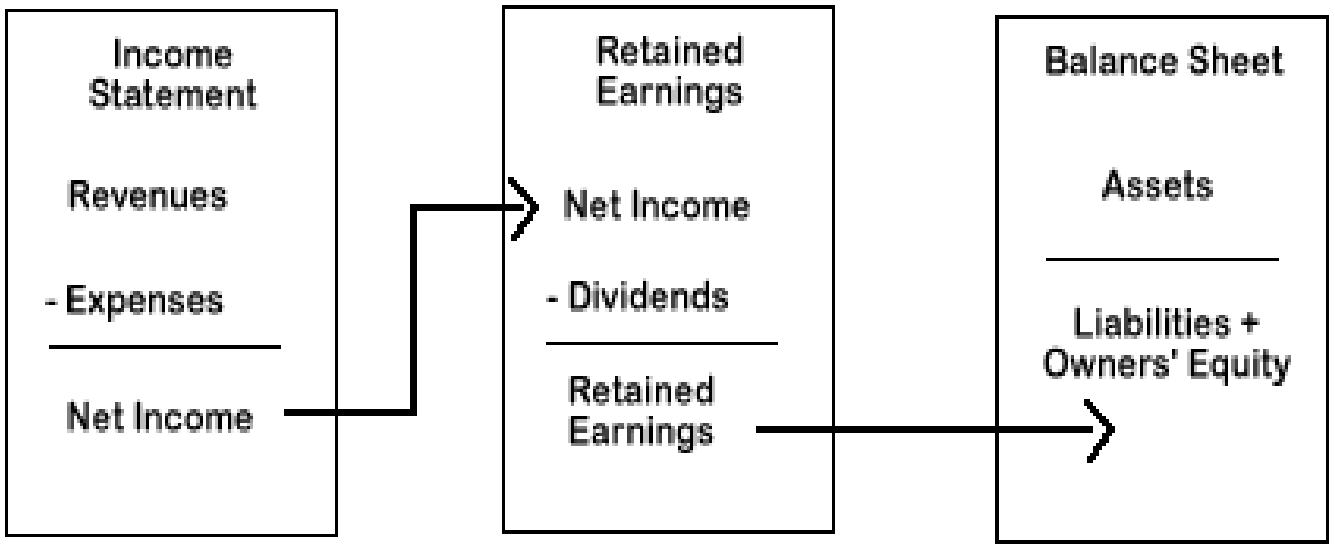
Income Statement			
Revenue	135,119.52	151,580.21	156,542.85
Gross profit	-	-	-
EBIT	42,691.69	51,532.93	44,651.58
Net income	34,420.96	38,088.03	45,747.91
EPS (KHR)	414.09	437.93	526.00

Income Statement			
Revenue	219,184.55	262,892.25	230,691.32
Gross profit	59,902.11	60,702.71	47,257.85
EBIT	44,378.62	36,801.61	18,454.91
Net income	35,105.00	29,145.94	14,147.51
EPS (KHR)	-	3,643.24	433.81

Company Analysis

4.5. Financial Statements

Relationship between
Income Statement and Balance Sheet



Company Analysis(Con't)

4.5. Financial Statements

4.5.3. Cash Flows

- *Cash flow is used to assess the quality of a company's income, that is, how liquid it is, which can indicate whether the company is positioned to remain solvent.*

Key Cash Flow Items		
Operating activities	***Investing activities***	***Financing activities***

Company Analysis(Con't)

4.5. Financial Statements

4.5.3. Cash Flows

Cash flows from (used in) operating activities		
Cash receipts from customers	9,000	
Cash paid to suppliers and employees	(1,500)	
Cash generated from operation(sum)	7,500	
Interest paid	(1,000)	
Income taxes paid	(1,500)	
Net cash flows from operating activities		5,000
Cash flows from (used in) investing activities		
Proceeds from the sale of equipment	7,000	
Dividends received	2,000	
Net cash flows from investing activities		9,000
Cash flows from (used in) financing activities		
Dividends paid	(2,000)	
Net cash Flows used in financing activities		(2,000)
Net increase in cash and cash equivalents		12,000
Cash and cash equivalents, beginning of year		1,500
Cash and cash equivalents, end of year		$13,500

Company Analysis(Con't)

4.6. Ratio Analysis

4.6.1. Introduction

Ratio analysis standardizes financial information for comparison.

It makes it possible to compare one company's current status with its historical data as well as other companies'.

Ratio analysis shows growth, profitability, and stability.

Company Analysis(Con't)

4.6. Ratio Analysis

4.6.2. Growth Analysis

- *Growth analysis usually offers sales, EBITDA (Earnings before interest expense, tax, depreciation, and amortization), operating profit, and net profit.*

Growth(%)	FY13	FY14	FY15E
Sales	26.6	4.4	15.5
EBITDAS	20.6	56.1	69.4
Operating Profit	18.0	67.2	122.3
Net Profit	24.5	62.9	109.2

Company Analysis(Con't)

4.6. Ratio Analysis

4.6.3. Profitability Analysis

- Profitability is commonly measured by ***gross margin, EBITDA margin, operating margin, net margin, ROE, and ROA.***
- <u>The formula is as followings;</u>

✓ *Gross margin = gross profit/sales*

✓ *EBITDA margin = EBITDA/sales*

✓ *Operating margin = operating profit/sales*

✓ *Net margin = net profit/sales*

✓ *ROE = net profit/total shareholders' equity*

✓ *ROA = net profit before interest expense and tax/total asset*

Profitability(%)	FY13	FY14	FY15E
Gross Margin	12.1	5.5	8.1
EBITDA Margin	11.9	5.0	7.3
Operating Margin	9.5	3.0	5.7
Net Margin	7.2	2.6	4.6
ROE	25.4	6.8	13.5
ROA	17.3	4.6	10.0

Company Analysis(Con't)

4.6. Ratio Analysis

4.6.4. Stability Analysis

- *Stability analysis is the minimum to check the investment risk. The most commonly used tools is liability to equity, as it is easy to calculate. However, we use other tools for more accuracy, which are total debt to equity, net debt to equity, current ratio, and interest coverage.*

Company Analysis(Con't)

4.6. Ratio Analysis

4.6.4. Stability Analysis

- *The formula is as followings;*

✓ *Liability to equity = total liability/total shareholders' equity*

✓ *Total debt to equity = total interest bearing debt/ total shareholders' equity*

✓ *Net debt to equity = (total interest bearing debt – total interest bearing asset) / total shareholders' equity*

✓ *Current ratio = current asset/current liability*

✓ *Interest coverage = operating profit/interest expense*

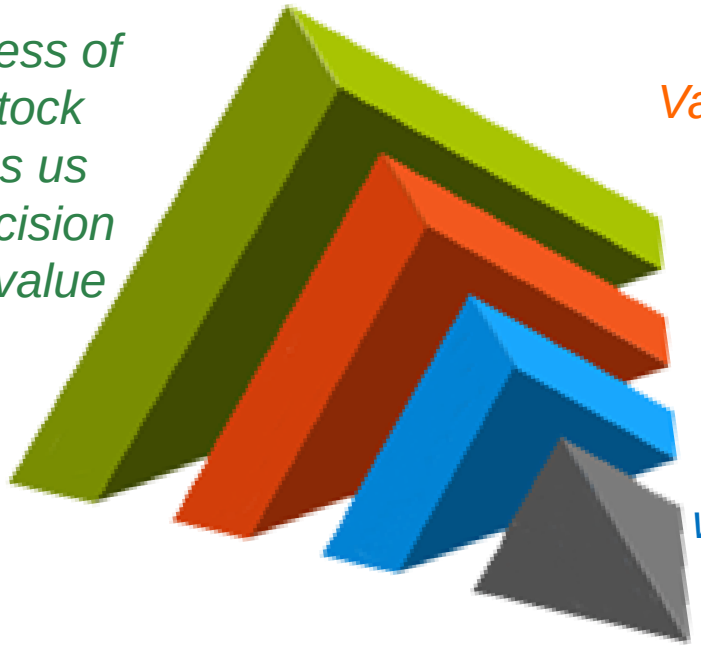
✓ *Quick ratio = (Cash and Cash equivalents + investments + accounts receivable) / Current Liabilities*

Company Analysis(Con't)

4.7. Valuation

4.7.1. Introduction

Valuation is the process of estimating what a stock is worth, which helps us to make Buy/ Sell decision by suggesting a fair value or target price.



Valuations are classified into absolute valuations and relative valuations.

Absolute valuations suggest fair value (=intrinsic value), which include DCF and DDM.

Relative valuations suggest target price, which include PE, PB, EV/EBITDA, and Dividend yield.

Company Analysis(Con't)

4.7. Valuation

4.7.2 Absolute Valuations

DCF (Discounted Cash Flow) is a method of valuing a company's stock price using the concepts of the time value of money.

Formula:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$$

Company Analysis(Con't)

4.7. Valuation

4.7.2 Absolute Valuations

Example:

(W bn)	2015	2016E	2017E	2018E	2019E	2020E
Operating Profit	1,089	1,165	1,223	1,284	1,374	1,470
+Depreciation	300	321	337	354	379	405
=EBITDA	1,389	1,486	1,560	1,638	1,753	1,875
-CAPEX	400	400	450	450	500	500
FCF	989	1,086	1,110	1,188	1,253	1,375
FCF after Tax effect	741	814	832	891	939	1,031
Discounted FCF	741	754	714	707	691	702

A. Sum of Discounted FCF for Explicit Period	**4,309**
Undisounted Terminal Value	20,630
B. Discounted Terminal Value	**14,040**
C. Present Value of FCF (A+B)	**18,349**
D. Net Debt	**838**
E. Equity Value (C-D)	**19,187**
F. Number of shares	31,860,000
G. Fair Value (E/F)	**602,235**
WACC (*r*)	8%
Growth rate (g)	3%

Company Analysis(Con't)

4.7. Valuation

4.7.2 Absolute Valuations

- *DDM (Dividend Discount Model) is a method of valuing a company's stock price based on the theory that its stock is worth the sum of all the future dividend payments, discounted back to the present value.*

✓ *The simple formula : Fair Value = this year's dividend/ (cost of equity –long term growth rate)*

✓ *Example : this year's dividend = 200, Cost of equity = 8%, growth rate = 3%, DDM = 200/(8%-3%) = 4000*

Company Analysis(Con't)

4.7. Valuation

4.7.3. Relative Valuations

- PER (Price to Earnings ratio) is the most commonly used in the real world due to its simplicity of calculation.

✓ *PER = Market price per share/Earnings(net profit) per share*

✓ *Example: market price = 100, EPS= 10*

Company Analysis(Con't)

4.7. Valuation

4.7.3. Relative Valuations

- *PBR (Price to Book ratio) is also frequently used in the real world. The concept is to compare a company's current market price to its book value.*

✓ *PBR = Market price per share/shareholders' equity per share*

✓ *Example : Market price/share = 100, shareholders' equity/share = 120*

Company Analysis(Con't)

4.7. Valuation

4.7.4. Valuation Comparisons

- *Absolute valuation suggests the fair value, which is independent from the market situation. However, the fair value is sensitive to an assumption change.*

	Strength	Weakness
Absolute Valuations	• Regardless the market situation change, we can find the value.	• Sensitivity to an assumption change is too high.
Relative valuations	• Calculation is easy.	• The target price depends on the market situation change.
PER, EV/ EBITDA	• Good tools in earnings expansion cycle	
PBR, Dividend Yield		• Good tools in earnings reduction cycle.

Thank You!!!