VALUING EMERGING MARKETS COMPANIES

A HALF-DAY WEBINAR

Introduction

City Training UK is delighted to submit the outline for its Emerging Markets Valuation training programme which is broken down over six modules. Based on the methodology developed by Aswath Damodaran, this propramme has been designed to develop the participants' understanding of the key issues facing Finance professionals valuing Emerging Market (EM) companies. At the end of this programme, the participants will be able to:

- Understand the key challenges arising from EM companies, namely currency volatility, lack of market data and country risk premium;
- Compute a Discounted Cash Flows (DCF) and trading multiples valuation of EM companies;
- Analyse and choose appropriate currency in cash flow forecast and discount rate;
- Decide on appropriate risk-free rate, equity risk premium, beta and country risk premium to be used in the discount rate;
- Decide on sensible use of trading multiples in EM.

We hope this will stimulate further discussion and provide real value to the training participants. If you have any questions, please email admin@citytraininguk.com or call +44 (0) 203 815 6530.

Why City Training UK?

Client Focus – A small London-based friendly team dedicated to its clients and tailoring courses to your business.

Experience and professionalism – Our trainers all held or are currently holding senior positions in the City, Wall Street or other leading financial centres and are talented lecturers.

Practical Programmes – Up-to-date, practical training including all the latest trends and recent case studies in your field

From heads of departments to credit analysts, recent graduate joining M&A, vice-president in private equity, middle office risk professionals, our trainers have trained thousands of professionals at the following leading institutions worldwide.

Session 1

Introduction

The session lays the foundations to understand what makes Emerging Markets different and discusses the key valuation issues to consider.

- How does EM differ from developed markets
  - Inflation and growth rate
  - Currencies: Pegged vs. floating exchange rate
  - Country risks
  - Commodity risks
  - Corporate governance
  - Lack of transparency
  - Family-owned business
  - Access to data
- Should DCF be the main source of value?
- Are local trading multiples available?
- Key valuation issues to consider
  - Choice of currency in forecast and discount rate
  - Discount rate and country risk premium
  - Valuation discount necessary?
- Information gap and accounting standards
  - Access to data/financial statements
  - IFRS reporting or local GAAP?
  - Inflation accounting use in hyperinflation countries

Session 2

Free Cash Flows

The participants are introduced to free cash flows issues for Emerging Markets, namely currency consistency and nominal vs. real cash flows.

- Choice of currency in valuation
  - Currency consistency - same currency in cash flow forecasts as per discount rate
  - Local Currency (LC) EM currency vs. US$/€
- Nominal vs. real cash flows
- Use of forward rates for foreign exchange conversion
- Significant risk from nationalization or expropriation
  - Subjective discount or scientific method?
  - Use of decision trees and probability weighting

Case study: Participants reconcile various methodologies: nominal and real LC cash flows and US$ nominal cash flows

Session 3

Discount Rate – Cost of Debt

The participants discuss the key issues for computing the cost of debt in Emerging Markets, namely:

- Risk free rate
  - Any public traded bonds outstanding?
  - Local currency or US$
  - Use of default spread with synthetic rating
- Country risk based on:
  - Credit Default Swap (CDS) spread
  - EM bond yield
- Pitfall of double-counting or triple-counting risks

Case study: Participants calculate the cost of debt for Gerdau Steel

Session 4

Discount Rate – Cost of Equity

The participants learn how to calculate the cost of equity with a particular focus on country risk premium and betas.

- Country risk premium methods
  - Sovereign default spread method
  - Relative equity market volatility method; scaling up US$ equity risk premium based on volatility of EM index vs. S&P 500
  - Composite method; scaling up the bonds default spread by the relative volatility of EM equity market relative to the EM government bond

- Beta
  - Beta reliable and liquid?
  - Use of ADR or GDR betas?
  - Choice of well-diversified global index
  - Unlevering and relevering peer set

Case study: Participants calculate the cost of equity for Gerdau Steel

Session 5

Trading Multiples in Emerging Markets

In this session, the participants discuss the key issues for trading multiples in Emerging Markets

- Size of sample: less than a handful real comparables?
- Considering other EM regions ?
- Using discount to developed markets trading range

Session 6

Final Case Study

Participants value MTN, the South African mobile operator based on DCF and multiples methodologies, calculating the relevant discount rate including country risk premium and beta