

Hart House Investment Club

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Comparable Company Analysis

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Introduction

Intrinsic valuation: finds a company's 'true' value based on fundamentals

Relative valuation: compares the company in question to other similar companies

Intrinsic valuation hinges on stable historic financial data

You can value a company based on how similar companies trade in the public markets

The first step is to pick the comp universe (size depends on relevance)

Market Multiples and Market Transactions

Method 1

Market Multiples compare common ratios between firms.

1. Enterprise Value to Sales (EV/S)
2. Enterprise Multiple
3. Price to Earnings (P/E)
4. Price to Book (P/B)
5. Price to Free Cash Flow (P/FCF)

Method 2

Market Transactions.

1. Acquisitions from rivals, private equity firms, or other investor classes.

Comparable Public Companies

The goal is to find companies of similar:

Industries

Business Models

Profitability

Size

Growth

Geography (International vs. Domestic)

Sources include:

Equity research reports

“Competitors” section from 10-K

SIC codes

Internet

Senior bankers

What is Comparable Analysis

A relative company valuation method that compares financial metrics.

Can compare similar sized companies in the same industry.

Valuation multiples are ratios (e.g. $\frac{EV}{EBITA}$)

How to Use Comparable Analysis

1. Find a Comps set
Locate necessary financials (e.g. EPS, stock price, EV and EBITDA)
2. Calculate valuation multiples from data (i.e. $\frac{\text{Price}}{\text{Earnings}}, \frac{\text{EV}}{\text{EBITDA}}$)
3. Average the data across the companies in the Comps set
4. Determine valuation of your company

Example: Teck Resources

Company: Teck Resources Ltd. (TSE:TCK.B)

Industry: Mining

Teck is Canada's largest diversified resource company

Teck will be shutting down 6 Canadian coal mines

Teck Resources Ltd. Dividend History

Actual Amount per share	Split adjusted Amount per share(1)	Record Date	Payment Date
\$0.15*	\$0.15	June 15, 2015	July 2, 2015
\$0.45*	\$0.45	December 15, 2014	January 2, 2015
\$0.45*	\$0.45	June 16, 2014	July 2, 2014
\$0.45*	\$0.45	December 16, 2013	January 2, 2014
\$0.45*	\$0.45	June 14, 2013	July 2, 2013
\$0.45*	\$0.45	December 14, 2012	January 2, 2013
\$0.40*	\$0.40	June 15, 2012	July 3, 2012
\$0.40*	\$0.40	December 15, 2011	January 3, 2012
\$0.30*	\$0.30	June 15, 2011	July 5, 2011
\$0.30*	\$0.30	December 15, 2010	January 14, 2011
\$0.20*	\$0.20	June 16, 2010	July 2, 2010
\$0.50*	\$0.50	June 16, 2008	July 2, 2008
\$0.50*	\$0.50	December 21, 2007	January 3, 2008
\$0.50*	\$0.50	June 22, 2007	July 3, 2007
\$1.00*	\$0.50	December 18, 2006	January 3, 2007

Any visible growth trend before 2015 is now invalid

Projections will be difficult given future uncertainty

Example: Teck Resources II

Find a Comps Set and Locate Financials

Summary						
	Price	Shares (M)	EPS	EBITDA (M)	Market Cap (B)	EV(M)
First Quantum Minerals (FM.TO)	16.08	600.51	1.04	1140	9.66	15670
Silver Wheaton Corp. (SLW.TO)	23.75	404.1	0.47	404.45	7.71	8370
Lundin Mining Corporation (LUN.TO)	5.63	718.45	0.27	485.89	4.04	4750
Nevsun Resources (NSU.TO)	5.16	199.66	0.45	315.05	1.03	589.58
Teck Resources Ltd (TCK-B.TO)		566.86	0.63	1910		



Same exchange



No set will be perfect

Example: Teck Resources III

Calculate Valuation Multiples

Summary						
	Price	EPS	P/E	EBITDA (M)	EV(M)	EV/EBIT DA
First Quantum Minerals (FM.TO)	16.08	1.04	15.46	1140	15670	13.75
Silver Wheaton Corp. (SLW.TO)	23.75	0.47	50.53	404.45	8370	20.69
Lundin Mining Corporation (LUN.TO)	5.63	0.27	20.85	485.89	4750	9.78
Nevsun Resources (NSU.TO)	5.16	0.45	11.47	315.05	589.58	1.87

Example: Teck Resources IV

Average the Data

Summary						
	Price	EPS	P/E	EBITDA (M)	EV(M)	EV/EBITDA
First Quantum Minerals (FM.TO)	16.08	1.04	15.46	1140	15670	13.75
Silver Wheaton Corp. (SLW.TO)	23.75	0.47	50.53	404.45	8370	20.69
Lundin Mining Corporation (LUN.TO)	5.63	0.27	20.85	485.89	4750	9.78
Nevsun Resources (NSU.TO)	5.16	0.45	11.47	315.05	589.58	1.87
Comps Set			24.58x			11.52x

Example: Teck Resources V

Determine Valuation

	Price	Shares (M)	EPS	EBITDA (M)	Market Cap (B)	EV(M)
Teck Resources Ltd (TCK-B.TO)		566.86	0.63	1910		

From P/E:

Given: $EPS = 0.63$, $P/E = 24.58x$

$$P = 0.63 * 24.58 = 16.12$$

From EV/EBITDA:

Given $EBITDA = 1920M$, $EV/EBITDA = 11.5$

$Net\ Debt = 13990M$, $Shares = 566.86M$

$$EV = 1920 * 11.52 = 22118.4$$

$$Market\ Cap = 22118.4 - 13990 = 8128.4M$$

$$P = 8128.4 / 566.86 = 14.34$$

Teck Resources Ltd. Valuation: \$14.34 - \$16.12

Factors to Consider

Consider the financial and economic theory behind the numbers.

Companies don't operate in a vacuum.

Valuation is as much an art as it is science.

Subjectivity will always exist; justify your reasoning.