

# Fundamental Analysis

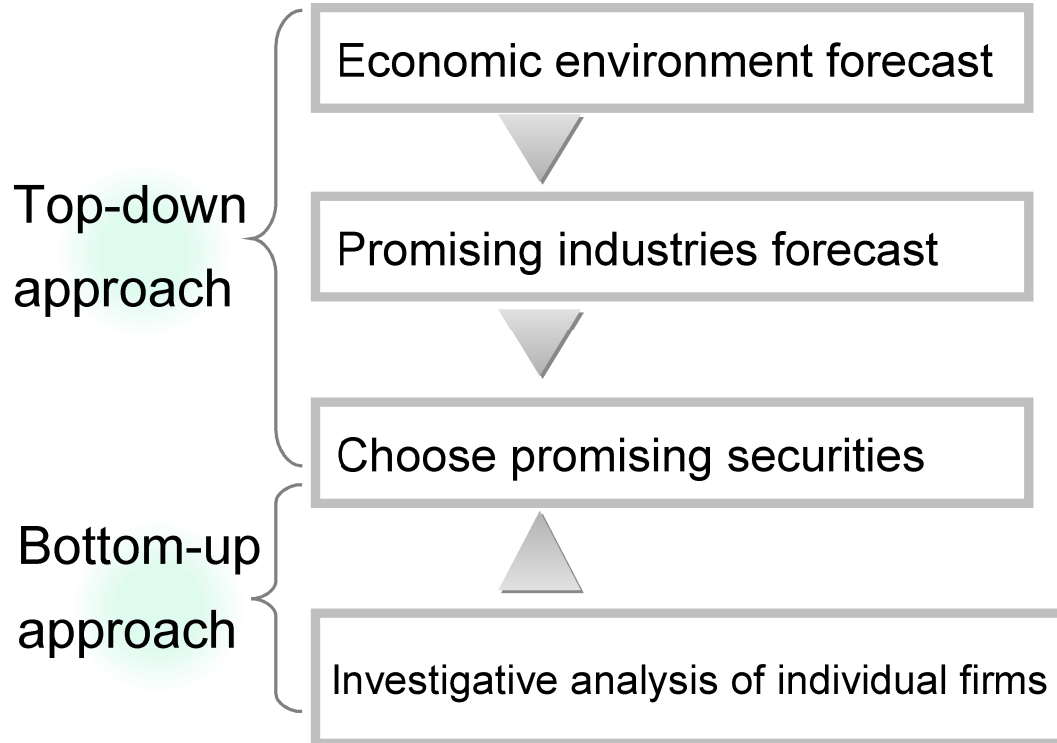
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# Fundamental analysis and Technical analysis

## Fundamental analysis

An approach by which the intrinsic value of a stock is derived from the firm's or economic fundamentals



## Technical analysis

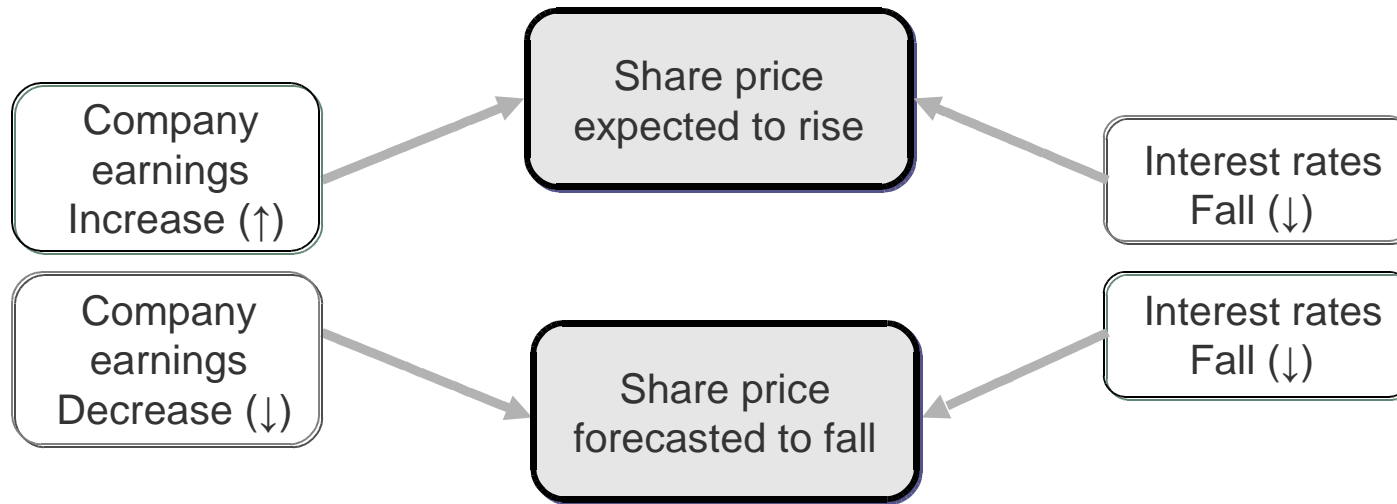
Technical analysis is a security analysis methodology for forecasting the direction of prices through the study of past prices and volume.

### Premises of technical analysis

- ① Charts factor in all market elements
- ② Price movements form trends
- ③ History repeats itself

## Factors which determine share prices

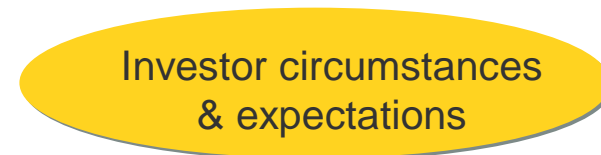
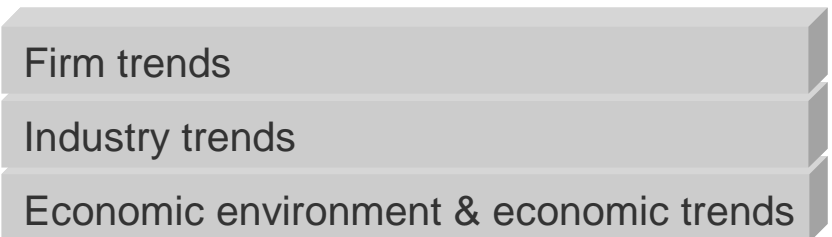
It is thought that share prices are determined by the following factors.



What about the level of profits...?

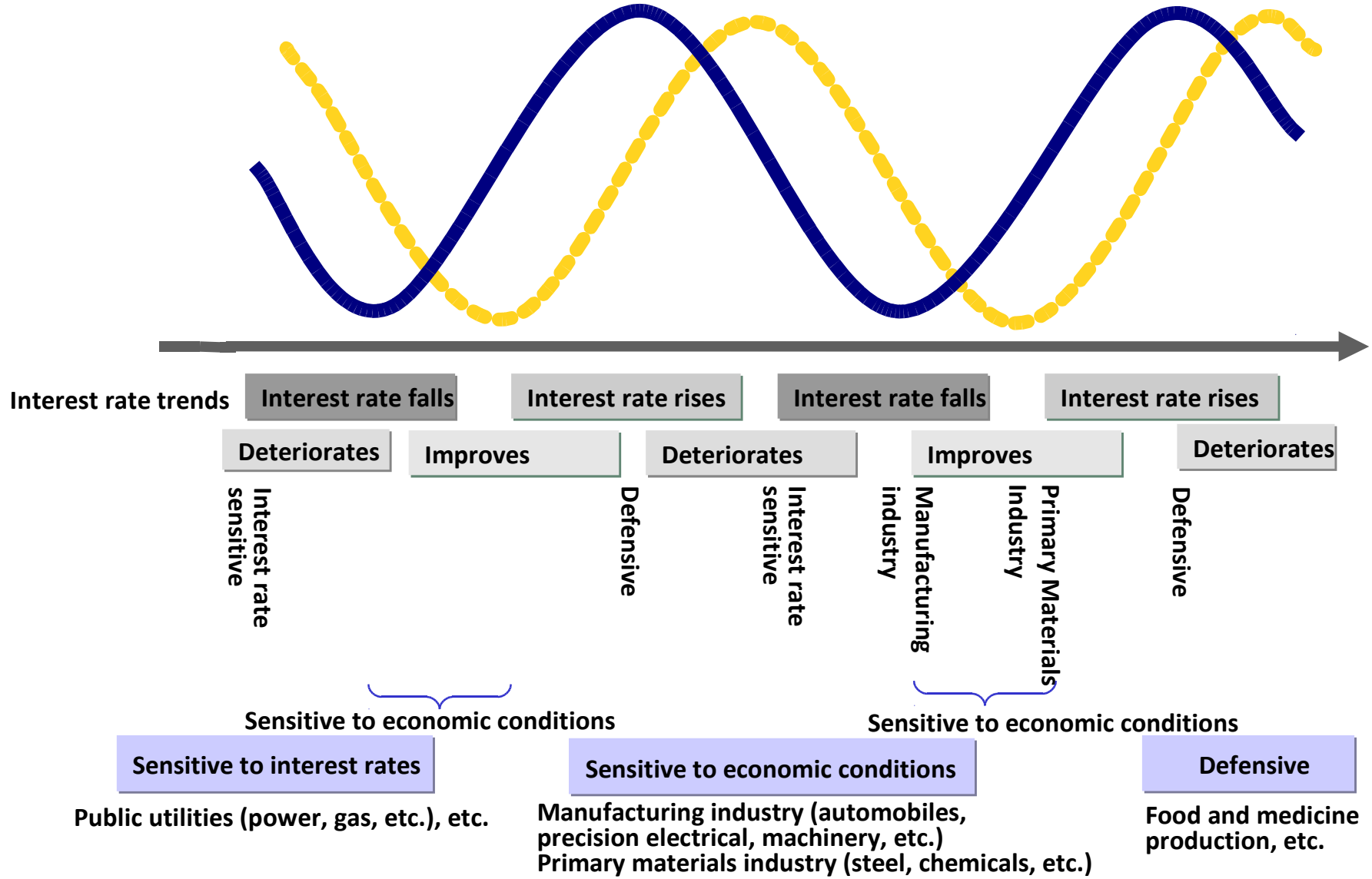
How much will a firm's results grow...?

What about future interest rate forecasts...?



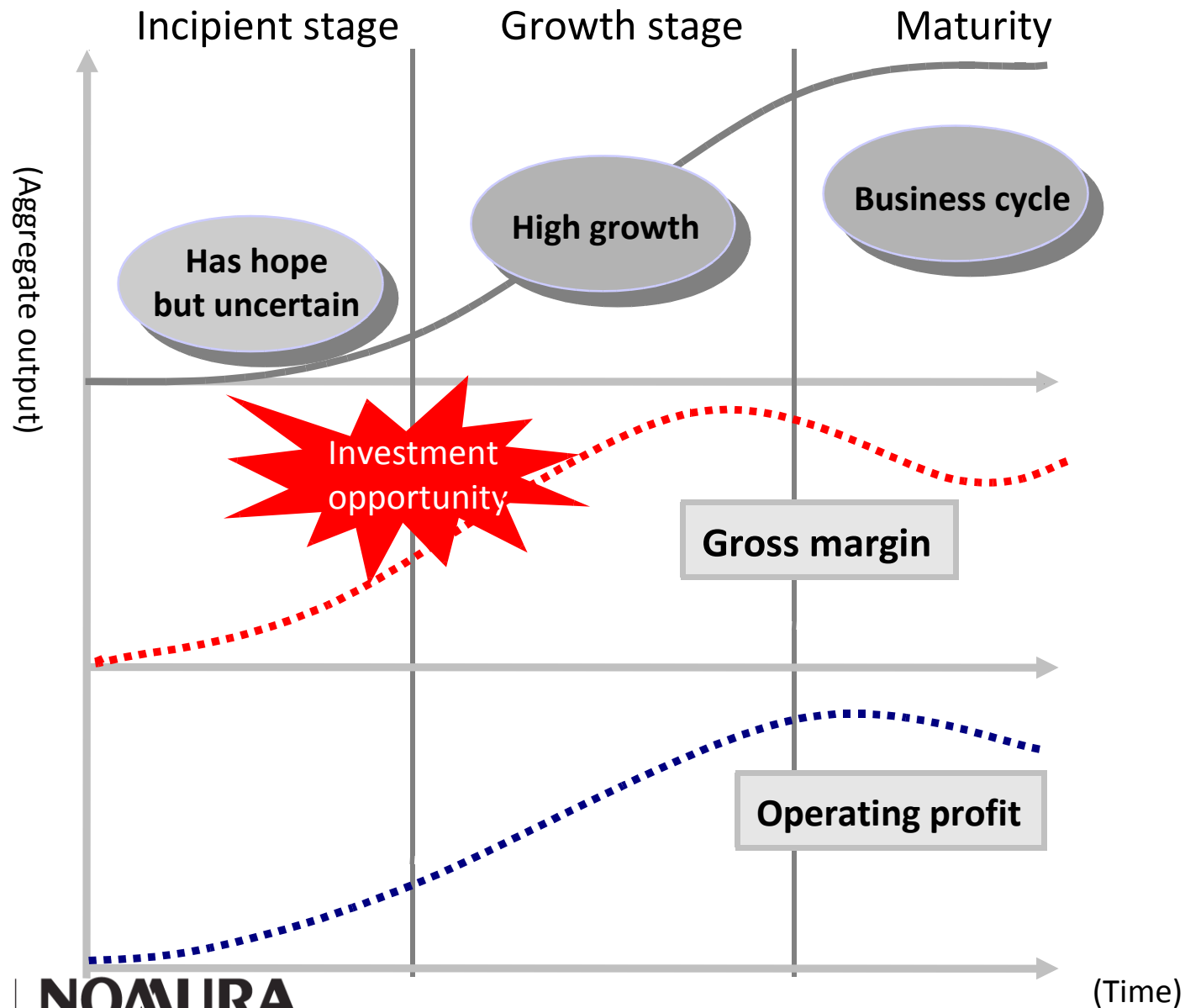
## Top-down approach

The relationship between the cycle of economic conditions, interest rates, and business performance and promising sectors is as follows (conceptual diagram)



## Bottom-up approach

Bottom-up approach (changes in a firm's performance – conceptual diagram)



## How to look at financial statements

The basic financial statements for analyzing a firm's business results and financial condition are the "profit and loss statement" and "balance sheet".

### Profit and loss statement (P/L)

#### Sales volume

(-) Cost of sales

Gross profit from sales (gross margin)

(-) Sales, general & administrative expenses

Operating profit

(±) Non-operating profit or loss

Ordinary profit

(±) Extraordinary profit or loss

Income before taxes

Tax

Current income

### Balance sheet (B/S)

Operations  
What kind of business money is used on

Procurement  
From where and how money is raised

Debt

Assets

Net assets

Procurement through bank loans and debentures, etc.

Management

Use assets to generate profit

Internal reserves  
(excluding dividends, etc.)

A firm's total assets minus total debts

## Price-earnings ratio (P.E.)

Earning per share (EPS) is current income divided by the total number of outstanding shares.

Example) Company A:

Current income: 100 million pesos

Total no. of outstanding shares: 1 million

EPS (pesos)

=

100 million pesos

1 million shares

=

100 pesos

The ratio which compares this EPS to share price is called the price-earnings ratio (PER). It is an indicator which shows how many times higher the share price is to earnings per share and a typical indicator when considering undervalue and overvalue.

(Example) Company A:

EPS: 100 pesos

Share price: 1,500 pesos

P.E.

=

Share price: 1,500 pesos

EPS (100 pesos)

=

15 times

## Price-to-book value ratio (PBR)

Book value per share (BPS) is net assets\* divided by the total number of outstanding shares.

\*Actually calculated using numbers derived from a detailed definition by Enforcement of the Companies Act.

(Example) Company A:

Net assets: 1 billion pesos

Total no. of outstanding shares: 1 million

BPS (pesos)

1 billion pesos

=

1 million shares

=

1,000 pesos

The value which compares this number to share price is called the price-to-book value ratio (PBR). A price-to-book value ratio under 1 means the share price is lower than the dissolution value on the books.

(Example) Company A:

BPS: 1,000 pesos

Share price: 1,500 pesos

PBR

=

share price: 1,500 pesos

BPS (1,000 pesos)

=

1.5 times



# Return on equity (ROE)

## Earnings per share (EPS)

Current income divided by the total no. of outstanding shares.

(Example) Company A:

Current income: 100 million pesos

Total no. of outstanding shares: 1 million

$$\text{EPS (pesos)} = \frac{\text{(current income)} \\ 100 \text{ million pesos}}{\text{(total no. of} \\ \text{outstanding shares)} \\ 1 \text{ million shares}} = 100 \text{ pesos}$$

## Book value per share (BPS)

Net assets\* divided by the total no. of outstanding shares.

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(Example) Company A:

Net assets: 1 billion pesos

Total no. of outstanding shares: 1 million

$$\text{BPS (pesos)} = \frac{\text{(net assets)} \\ 1 \text{ billion pesos}}{\text{(total no. of} \\ \text{outstanding shares)} \\ 1 \text{ million shares}} = 1,000 \text{ pesos}$$

The value which compares this EPS (earnings per share) and BPS (book value per share) is called the rate of return on equity (ROE). This uses shareholders' equity to show how much a company has increased earnings, and a high ROE means that the company is being managed that much more efficiently.

(Example) Company A:

EPS: 100 pesos

BPS: 1,000 pesos

$$\text{ROE (\%)} = \frac{\text{(EPS) 100 pesos}}{\text{(BPS) 1,000 pesos}} \times 100 = 10\%$$

# Dividend yield

The dividend yield or dividend-price ratio of a share is the dividend per share, divided by the price per share. It is also a company's total annual dividend payments divided by its market capitalization, assuming the number of shares is constant.

$$\text{Current Dividend Yield (\%)} = \frac{\text{Most Recent Full-Year Dividend}}{\text{Current Share Price}} \times 100$$

(Example) Company A:

Annual dividends per share: 30 pesos

Share price: 1,500 pesos

$$\text{DIV} = \frac{30 \text{ pesos}}{1,500 \text{ pesos}} \times 100 = \underline{\underline{2.0\%}}$$

**RECORD DATE** – date where stockholders to be entitled of dividends are identified and recorded.

**EX-DATE** – three working days before the record date.

**PAYMENT DATE** – date where dividends will be finally paid to stockholders.

## Investment information

### (1) Analysts

Mainly conduct fundamental analysis of firms, project the results of individual firms, and offer investment decisions (ratings).

### (2) Economists

Analyze what condition the economy is currently in and where it is heading in the future.

### (3) Strategists

Develop and recommend investment strategies taking into consideration the investment environment around what markets are good and what markets to avoid.