FactSet – Equity Valuation

Company

It is important to scan the overall market environment on a daily basis. Use FactSet’s markets tab to do this. Click on Overview to see indices in different continents i.e. Americas, Europe, and Asia. This will give you a general sense of how the markets are performing on a given day. You can then analyze different sectors of the market such as energy, precious metals, and agriculture to see how they are and have been performing. Finally, observing the currency of the geography you are investing in is an important consideration. For instance, analysts forecasted a weakening U.S. dollar in 2015/16. This implies that international trade will be pressured as exports will become more expensive. The question then to ask is what does this imply on the company you chose? If they have geographical exposure overseas, is that an advantage or disadvantage?

If you make your way to Quotes, you can use the identifier to type in the security you want to analyze. If I type in BMO CN, it will add an additional tab for the Bank of Montreal. In this row, you will find the price information, dividend yield, EPS, P/E, and other current information.

If you right click on BMO’s ticker, you will find ‘company guide’. Click on the guide to view all the information about BMO. This is one of FactSet's many advantages: it summarizes all the key information into one page of different folders. For instance, you can start by analyzing the company’s overview. Here, it is important to read about the company (its description) as well as any company news released. It is extremely important to consider estimates of the company. Analysts from various banks and corporations will generate reports with estimates of their target price. If you click on Targets & Ratings under estimates, you will see the mean target price rating for BMO (as well as the low and high). This can be used to check whether or not your personal valuation is close to what professional predict. Another important sub tab of estimates is the Surprise. This shows the historical quarterly earnings releases generated by the company. For instance, analysts had estimated that in Q3 of 2014, BMO would have an EPS of 1.66. However, BMO’s actual earnings were 1.73. This implies that BMO had an earnings surprise of 4.3%. Usually, when companies release earnings that are greater than what was expected, it is reflected positively in their stock price.

Valuations are also important considerations when generating a stock investment pitch. Important multiples to consider are P/E, P/Sales, P/B, EV/EBITDA. FactSet’s valuation subtabs offer great multiples and peer comparisons that can be used to evaluate whether your company of choice is at a premium or discount versus peers. Keep in mind that
multiples vary amongst different sectors of the market and some multiples cannot be
applied across the board. For instance, technology companies often exhibit very high P/E
ratios due to high market volatility. This is because the technology industry is characterized
by phenomenal growth rates and constant change. Compared to utility companies that have
low multiples and are more stable, technology companies should only be compared to
similar high growth companies in the same industry.

Lastly, it is essential to analyze thoroughly a company's financial statements. In fact,
ensuring that a company’s financial statements are healthy is arguably the most
important deciding factor of whether or not to invest in the company
shareholders and their management team can often make the picture seem more
glossy than it actually is, but numbers never lie).

**Economics**

Almost any investment pitch or stock report will have a section detailing the macro and
micro environments and its implications on the company of choice. For this reason, using
FactSet’s economic dashboard will be of great use. Starting with the **Key Events**
Dashboard will be beneficial in looking at things such as CDS, CPI, and Interest Rates of
different countries around the world. For instance, if your company is based in Canada yet
has 50% exposure in international markets i.e. Europe, it is important to evaluate credit
spreads, inflation, and rates in those countries as all these variables may positively or
negatively impact the company’s performance in those geographies.

Another important tab is the **Economic Calendar**. This allows you to filter the calendar
through the years (and during the year) and see different economic events taking place. For
instance, on November 2nd, 2014 TD will released the inflation gauge report for Australia.
Another more relevant event that had recently taken place at the time of the writing is the
ending of U.S. Federal Reserve’s monthly bond buying program that was initiated shortly
after the 2008 crash (Quantitative Easing). The Chairman and the Board on the FOMC had
released statements that the U.S. economy should expect interest rate hikes in mid-2015.
This event release put downward pressures on the 10 YR U.S. treasury as it is more
sensitive to short term interest rate movements. Even short term bond rates such as the 2
and 5 YR bonds saw a rise in their yields and a decrease in price.

Use the **Country Synopsis** to analyze in detail all the information of the country where
your company is based in. For instance, if your company is headquartered in the U.S., make
sure to analyze current inflation and interest rates as well as projections. Keep in mind the
exchange rates performance and the value of the currency you operate with as it may also
have significant implications on your investment decision.