Methodology used for equity valuation and recommendation of covered companies

Discounted Cash flow (DCF)

We analyze companies in our coverage using a five year forecasted period and set a terminal value considering the entity's long term growth and earnings prospects. Cash flows are discounted unless stated otherwise. In particular cases, the forecast period may be longer or shorter than five years. In such cases, analysts must define the reason for difference in the research material.

Discounted Dividends (DDM)

The discounted dividend method is similar to the discounted cash flow. The main difference is: (1) Projected dividends are used for valuation (2) Discount rate is the cost of equity only. We apply this method when we see the firm's value is tied to dividend payments or have more weight relative to the DCF method in valuation.

Excess capital and/or tangible equity valuation

We incorporate the above-mentioned two valuation methodology when it comes to banks. Tangible equity valuation is based on a forecasted tangible equity amount and the relationship between return on tangible equity, growth and cost of equity. The excess capital method is similar to the discounted dividend method but it takes the financial institution's capital adequacy into consideration.

Discount rate, calculation and sensitivity

We use WACC or cost of equity as a discount rate, dependent on the industry. For cost of equity, the CAPM model is employed, using internal risk-free rate forecasts unless stated otherwise. For equity risk premium, we employ a beta measure based on historical returns, and differ from this figure only when and if an explanation is provided in the specific research. Equity risk premium employed is set at 5.5%. Concorde uses current year's net debt figure for valuation purposes.

Our Earnings Revision research product must contain sensitivity analysis regarding factors that could affect valuation materially i.e. growth rate, discount rate, margins, etc. for the sake of illustration.

Peer group valuation

In most of the cases we rely on DCF or DDM methods, however, for comparison, we may use peer group valuation in our research materials. The condition for using such method is an existing, well-defined peer group. We use EV/EBITDA, P/E and P/Tangible Book Value as a base of comparison unless there are industry specific measures that may be appropriate.

Sum-of-the-parts valuation, weighted average valuation

If the company covered has different, well-separated segments, we may use sum-of-the-parts valuation if appropriate. Additionally, we may combine the above-mentioned methods for setting our target prices by assigning different weights for different valuation methods. In that case, all weights and the reason for the weighting must be defined.

Frequency of updates

We set our target price on a 12-month basis, ex-dividend while our recommendation takes total return under consideration. Target prices and recommendations are revised quarterly if needed or whenever a significant change has occurred at the company which could impact the company's valuation materially based on our assumptions/related public information.

Recommendations

Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 0-10%
Reduce	Total return is expected to be in the range of -10-0%
Sell	Total return is expected to be lower than -10%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.