



AFCP8054

Investment and Credit Analysis

Term 2, Special circumstances 2021

Department of Applied Finance

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Notice

As part of [Phase 3 of our return to campus plan](#), most units will now run tutorials, seminars and other small group activities on campus, and most will keep an online version available to those students unable to return or those who choose to continue their studies online.

To check the availability of face-to-face activities for your unit, please go to [timetable viewer](#). To check detailed information on unit assessments visit your unit's iLearn space or consult your unit convenor.

General Information

Unit convenor and teaching staff

Tano Pelosi

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Contact via Email

Credit points

5

Prerequisites

ECFS866 or AFCP8003

Corequisites

Co-badged status

Unit description

This unit covers the use of advanced financial analysis and modelling techniques in corporate finance applications, and is designed for students interested in analyst roles in equity and credit analysis, banking or consulting environments. Building on concepts introduced in ECFS866, this unit complements other corporate finance electives. The unit will allow students to explore the linkage between a company's strategy and industry competitive structure, and financial performance. We will analyse financial performance by demonstrating financial analysis techniques, and assess the impact of accounting issues in analysing a company's financial results. The unit will explore how financial modelling can be used to assist in addressing these issues.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://students.mq.edu.au/important-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

ULO1: Develop skills in analysing and appraising cash flow for a given industry or strategy.

ULO2: Develop advanced modelling and forecasting skills.

ULO3: Apply a range of credit risk metrics in financial analysis.

General Assessment Information

Information - Extension Requests / Penalties

Pre-Unit Quiz (10%)

You are expected to make yourself available for assessment during the relevant quiz window.

Students who do not submit this task by the due date and time receive a result of zero. This penalty does not apply when an application for Special Consideration has been made and approved.

Students who do not attempt the quiz receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.

Further information on submitting an Application for Special Consideration can be found at <http://students.mq.edu.au/study/my-study-program/special-consideration>.

Assignment (35%)

No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission incurs a 20% penalty). This penalty does not apply for cases in which an application for Special Consideration is made and approved.

Late submissions will be accepted up to 96 hours after the due date and time.

Further information on submitting an Application for Special Consideration can be found at <http://students.mq.edu.au/study/my-study-program/special-consideration>.

Final Exam (55%)

You are expected to present yourself for examination at the time and place designated at <https://iexams.mq.edu.au/timetable>

Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.

Students who do not attend receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.

Further information on submitting an Application for Special Consideration can be found at <http://students.mq.edu.au/study/my-study-program/special-consideration>

Assessment Tasks

Name	Weighting	Hurdle	Due
Pre-Unit Quiz	10%	No	Refer to iLearn

Name	Weighting	Hurdle	Due
Assignment	35%	No	Refer to iLearn
Online Final Examination	55%	No	Refer to iLearn

Pre-Unit Quiz

Assessment Type ¹: Case study/analysis

Indicative Time on Task ²: 6.00 hours

Due: **Refer to iLearn**

Weighting: **10%**

Pre-class quiz to be completed in iLearn prior to first class

On successful completion you will be able to:

- Develop skills in analysing and appraising cash flow for a given industry or strategy.
- Develop advanced modelling and forecasting skills.

Assignment

Assessment Type ¹: Case study/analysis

Indicative Time on Task ²: 9.00 hours

Due: **Refer to iLearn**

Weighting: **35%**

An individual assignment submitted via Turnitin

On successful completion you will be able to:

- Develop skills in analysing and appraising cash flow for a given industry or strategy.
- Develop advanced modelling and forecasting skills.

Online Final Examination

Assessment Type ¹: Examination

Indicative Time on Task ²: 16 hours

Due: **Refer to iLearn**

Weighting: **55%**

A two-hour open book online examination will be held during the Term's Exam Week.

On successful completion you will be able to:

- Develop skills in analysing and appraising cash flow for a given industry or strategy.
- Develop advanced modelling and forecasting skills.
- Apply a range of credit risk metrics in financial analysis.

¹ If you need help with your assignment, please contact:

- the academic teaching staff in your unit for guidance in understanding or completing this type of assessment
- the [Learning Skills Unit](#) for academic skills support.

² Indicative time-on-task is an estimate of the time required for completion of the assessment task and is subject to individual variation

Delivery and Resources

CLASSES

Consultation Times:

Students who wish to contact any of the teaching staff may do so through:

- The unit's iLearn site, in relation to general queries (so that all students may benefit); or
- Individual consultation with the lecturer by email in the first instance, if necessary.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Background Text:

- Bodie, Kane & Marcus, Investments, McGraw-Hill/Irwin, 9th edition ISBN 978-0-07-353070-3.
- Ross, Westerfield & Jaffe, Corporate Finance, McGraw-Hill/Irwin, 10th edition 2013 (ISBN 9780078034770) (RWJ).

You are not required to buy latest editions of these books; whatever you used when you did the prerequisite will be sufficient as background reference.

Additional Readings:

- The unit notes make reference to additional downloadable material on the iLearn. This is for students interested in following up particular aspects in greater detail.
- Students should assume these additional readings are not examinable unless otherwise

advised.

Lecture Notes: Available in printed form and electronically via iLearn.

Useful References: Supplementary Not Required: Koller, Goedhart, Wessels (2010), Valuation: Measuring and Managing the Value of Companies, Wiley, 5th Edition.

Calculators:

- A scientific calculator or financial calculator that can handle time value of money calculations, logs and power functions is required.
- The Hewlett Packard calculator hp17bII+ is recommended.
- In examinations, hand held calculators are permitted. Mobile phones and computers are not permitted.

Assumed Access:

- Access to a computer with word processing and spreadsheet capability is assumed, as is general computer literacy.

TECHNOLOGY USED AND REQUIRED

Unit iLearn Site:

- Found by logging on to iLearn ilearn.mq.edu.au, then clicking on AFCP8054 Investment and Credit Analysis.
- This is where you will find forums, downloadable resources and links to important pages.
- The forum allows you to communicate with other students and lecturer(s) and may provide supplementary material.
- You are requested to post your questions on the forums at least 24 hours prior to the assignment submission date or the examination date. Questions posted after that time may not be answered. Please try to not leave your questions to the last few days.

Important:

- It is important that you familiarise yourself with the unit's iLearn site.
- Students should check the unit's iLearn site regularly (minimum twice a week and prior to all lectures) and look for updates and distribution of materials (including case studies) related to the unit or assessments and, if relevant, participate in forum discussions.

Unit Schedule

***Refer to iLearn for class dates and times**

Topics

TOPIC 1: INDUSTRY AND STRATEGIC ANALYSIS

- Koller, Goedhart, Wessels (2010), Valuation: Measuring and Managing the Value of

Companies, Wiley, 5th Edition, Ch4 Return on Invested Capital, p59-80 (Refer to as KGW)

- McGahan, How Industries Change, Harvard Business Review October 2004, p87-94
- Porter (1985), Competitive Advantage: Creating and Sustaining Superior Performance, Free Press, 2004 Export Edition, pp4-12, 36-48, 67-70
- Grinblatt & Titman, Financial Markets and Corporate Strategy, McGraw-Hill International, 1998, Ch17, How Managerial Incentives Affect Financial Decisions, p605-615
- Additional Reading: Smit and Trigeorgis (2004), Strategic Investments: Real Options and Games, Part 1, p3-33, and p39

The financial performance of any business is inextricably linked to the strategic and operating decisions of management and the industry structure in which the firm exists. This topic is designed to provide an overview of industry and corporate strategy. The aim of this topic is to review several broad frameworks of strategic analysis in order to provide context to financial analysis and forecasting.

- A framework of how management decisions translate to financial performance and corporate value will be examined.
- The subject will include an overview of Porter's model of industry strategic analysis and Porter's value chain analysis. However, it is often difficult to translate a Porter analysis into a detailed investment analysis.
- The subject will then review operation strategy within the context of broader industry position and how this translates into operational and financial performance. A review of the Product/Process matrix will lead into the next topic, Financial Statement Analysis, by describing the nature of operating decisions given a company's chosen strategy.

TOPIC 2: FINANCIAL STATEMENT ANALYSIS

- Koller, Goedhart, Wessels (2010), Valuation: Measuring and Managing the Value of Companies, Wiley, 5th Edition, Ch8 Analysing Performance (p165-173)
- A. Damodaran, Leases, Debt and Value, Working Paper, Stern School of Business (April 2009)
- Sherman & Young, Tread Lightly Through These Accounting Minefields, Harvard Business Review, July-August 2001, p129-135
- Article: <https://www.afr.com/brand/chanticleer/disclosure-at-heart-of-vgis-short-attack-on-corporate-travel-management-20181028-h177ul>
- Additional Reading: Ross, Westerfield & Jaffe, Corporate Finance, 10th Edition, Ch 2 Financial Statements and Cashflow (p20-34) and Ch 3 Financial Statement Analysis (p44-76)
- NB. Students should possess this text from ECFS866 Corporate Finance where this chapter was covered in CF Topic 4.
- Sample Company Presentation - Western Digital Corporation.

Topic 2 will provide the basis for more detailed review of financial performance of an enterprise. Students should re-familiarise themselves with the financial statement analysis conducted in core Corporate Finance. The topic will build on prior FSA skills to be applied in case framework and across different settings in Topic 3.

- A brief refresher of cash flow analysis and financial statements will be provided.
- A detailed review of the components of the income statement (breakdown of gross margin, COGS vs SG&A, fixed and variable costs) and working capital will be conducted.
- A more detailed Du Pont review will be conducted including sensitivity of outputs to differences in operating strategy. Topic 2, paired with in-class workshop exercises in Topic 3, will be critical for the course objective in building financial analysis skills.
- Key accounting minefields will be reviewed. Accounting metrics with significant discretion in estimation or possibility of misinterpretation will be examined.
- Note: Students are encouraged to source ratio definitions from several texts as terminology may vary.

TOPIC 3: MATCHING STRATEGY TO FINANCIAL PERFORMANCE

- Chew, *The New Corporate Finance: Where Theory Meets Practice*, McGraw-Hill 2nd Edition, Section II. Corporate Strategy and Structure, p101-118, 127-139
- B. Henderson, *Cash Traps*, The Boston Consulting Group, Perspectives Reprint No. 106
- B. Henderson, *The Experience Curve*, The Boston Consulting Group, Perspectives Reprint No.124
- Sample blind financial statements and related ratios including one paired set from same industry

Topic 3 combines industry and competitive strategy analysis from Topic 1 and financial statement analysis from Topic 2. This is a practical, “hands-on” topic using real company information. A brief overview of Operating Strategy will be conducted followed by a series of workshop exercises using blind case examples to match financial performance across various industry groupings and company strategies.

- The aim of this topic is to help students forecast under uncertainty.
- This topic will bridge financial performance and strategy.
- The linkage between the product/process matrix and financial performance will be examined.
- A number of real-world industry case studies of FMCG (Fast Moving Consumer Goods), transport, industrial and other companies will be reviewed.
- Participation in workshop discussion will be essential for students to consolidate the investment analysis skills required for this course.

TOPIC 4: ROBUST FINANCIAL MODELLING

- Beninga & Sarig, Corporate Finance: A Valuation Approach, McGraw-Hill 1997, Ch4-5, p109-132, 134-154
- Australian Bureau of Statistics, Statistical Language, <http://www.abs.gov.au/websitedbs/a3121120.nsf/home/statistical+language> .
- Fama & French, Forecasting Profitability and Earnings, Journal of Business Vol 73 No.2 (2000), p161-175
- Supplementary Revision: Ross, Westerfield & Jaffe, Corporate Finance, 10th Edition, Ch 4 DCF Valuation (p87-134)
- NB. Students should possess this text from Corporate Finance.
- Additional Recommended: Introductory text in econometrics or statistics.

DCF modelling is an often underappreciated tool due to its dependency on key inputs. Modelling involves more than extrapolating past historical performance and financial relationships. In addition to industry and strategic factors, advanced, reliable modelling requires identification of key value drivers and extrapolation of those relationships. This topic is designed to take students beyond static modelling to encompass a more dynamic - realistic - industry and company environment.

Topic 4 will cover:

- Advanced financial projections and modelling of key relationships
- Macroeconomic top down forecasting
- Understanding the modelling process and importance of the integrated financial model
- Value Driver Trees
- Improving the robustness of the model and reality checks

TOPIC 5: EQUITY VALUATION ANALYSIS

- Chew, The New Corporate Finance, McGraw-Hill 2nd Edition, reprint of Stern Stewart Roundtable on Relationship Investing and Shareholder Communication, New York, p73-100
- Chen, Harford, and Lin, Do financial analysts play a monitoring role? Evidence from Natural Experiments, Working Paper, The Chinese University of Hong Kong and University of Washington
- Gu and Wu, Earnings skewness and analyst forecast bias, Journal of Accounting and Economics 35, 5-29
- Available on Web: Muddy Waters Research, Sino-Forest Corporation Report, 2 June 2011

DISCLAIMER: A number of equity broker reports will be used in this topic. These are not to be construed as investment recommendations and are for illustrative purposes only.

This topic will look at the functions of an equity analyst with a focus on applying the checks and balances discussed in Topic 4 on a financial model. The topic will review the components of actual analysts' reports by way of example.

Students will:

- Review components of an equity valuation analysis.
- Link in use of DCF vs market multiples between short term trading and long term investment valuation focus.
- Examine ROIC over time under sensitivity and scenario analysis.
- Discuss funding risks and link back to capital structure strategy from Corporate Finance.

TOPIC 6: RISK TO CASHFLOWS AND CREDIT ANALYSIS

- Hull, J., Predescu, M., White, A. The relationship between credit default swap spreads, bond yields, and credit rating announcements, *Journal of Banking and Finance*, Vol. 28, 2789-2811
- Penman, *Financial Statement Analysis and Security Valuation*, 3rd Ed, p720-737
- M. Grinblatt & Sheridan Titman, *Financial Markets and Corporate Strategy*, McGraw-Hill International, 1998, Ch16, Capital Structure and Corporate Strategy, p577-597 and Ch17, How Managerial Incentives Affect Financial Decisions, p615-629
- Standard & Poors, 2008 Corporate Criteria: Analytical Methodology, April 15, 2008, 983195 | 301932338
- Standard & Poors, Methodology: Business Risk/Financial Risk Matrix Expanded, September 18 2012, 1012975 | 301932338
- Moody's, Rating Methodology: Global Regulated Electric Utilities, March 2005, Report Number: 91730
- Moody's, Rating Methodology: Global Manufacturing Industry, December 2010, Report Number: 129387

Topic 6 examines analysis of risk to cashflows and how credit policy impacts operating performance. The topic examines particular ratios related to debt covenants and measures of potential credit risk or default. A review of rating agency methodology and credit protection mechanisms will be provided. A discussion on the balance between equity and credit demands, and the impact on strategy and industry structure will round out the topic.

- Financial ratios, default prediction and credit scores and ratings.
- Credit related concept of risk and calculation of credit specific ratios.
- Role and background of rating agencies.

- Discuss some of the protections to debt capital.
- Linkages between credit risk, strategy and industry framework.

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://policies.mq.edu.au\)](https://policies.mq.edu.au). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#)

Students seeking more policy resources can visit [Student Policies \(https://students.mq.edu.au/support/study/policies\)](https://students.mq.edu.au/support/study/policies). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

To find other policies relating to Teaching and Learning, visit [Policy Central \(https://policies.mq.edu.au\)](https://policies.mq.edu.au) and use the [search tool](#).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/admin/other-resources/student-conduct>

Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to help you improve your marks and take control of your study.

- [Getting help with your assignment](#)

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module](#)

The Library provides online and face to face support to help you find and use relevant information resources.

- [Subject and Research Guides](#)
- [Ask a Librarian](#)

Student Enquiry Service

For all student enquiries, visit Student Connect at ask.mq.edu.au

If you are a Global MBA student contact globalmba.support@mq.edu.au

Equity Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.