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Valuation of Banks in Cambodia

Case Study: ACLEDA BANK

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Introduction

According to the official statistic data by June of 2015 of National Institute of Statistic of Cambodia, Cambodia is expected to have an economic growth 6.9% in 2015 lower than expectation, however, with average GDP growth rates predicted by the IMF at 6.2-7.7% per year for the next three years, Cambodia would be the 2nd fastest growing economy in the region behind only Laos. This economic growth is currently driven by three main sectors: agriculture 28.6%, industry 27.9% and services 43.6%. And the financial services is one of most dynamic drivers. The industry include banking, microfinance, insurance, saving and investment, debt and equity service and, these activities play more important role as for the economic growth by allocating and providing financial resources to the investment needs. Meanwhile as the banking system keep growing stronger, competitiveness becomes more intense, and all the key player has to keep an eye on their market share.

With the continued rise of the business sector, M&A – or Mergers and Acquisitions – have become one of the most discussed topics among investors in Phnom Penh. As small and medium businesses reach the limits of their potential under a current model, savvy operators are increasingly looking to join forces with, takeover, or sell out to other entities in a bid to increase their footprint in the market.

In the financial sector, the Maruhan Japan Bank in 2012 acquired 95% of the Sathapana Microfinance Institution, allowing the two to expand their reach and customer base, and paving the way for the announcement in January that they would form a new entity in 2016: Sathapana Bank. This consolidation that will allow them to rival the biggest financial institutions in the country (Acleda, Canadia, Campu). Two formerly separate entities now have the advantage of sharing core competencies, resources and skills, and are operating at international standards in a market where competition is only going to grow.

On 9th May 2015, National Bank of Canada has acquired ABA bank's and become a major shareholder 90%. Thailand-based Bank of Ayudhya to acquire 100% of the local microfinance institution (MFI) HKL (Hattha Kaksekar), with the deal expected to be valued at upwards of $140 million (The Phnom Penh Post, Thu, 28 January 2016). The increasing competition in Cambodia's fast-growing financial sector has led to several high-profile consolidations in recent years, quotes The Phnom Penh Post on Mon, 4 April 2016.

M&A and corporate restructuring are a big part of the corporate finance world. Every day, investment bankers arrange M&A transactions, which bring separate companies together to form larger ones. Not surprisingly, these actions often make the news, as deals can be worth hundreds

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of millions of dollars. For a CEO and shareholders, a successful M&A can represent the summit of an entire career, in terms of reputation and also in terms of wealth. And the number of operations undergoing these transformations is increasing – a positive leading indicator and a favorable sign for the Cambodian market.

In this report we will show that bank valuation is crucial for consolidation. The main applications of valuation are disciplines such as: Merger & Acquisition (M&A) and Initial Public Offering (IPO) or going public, listed at the stock market (CSX). The main approaches to value a bank remain the asset-based approach, market approach, income approach. The next chapters will detail the methodology and interpretation of the above approaches for bank valuation with the ACLEDA case study.

1- Market Overview of Banking Sector, Market Regulation, Market Trends

1.1 Banking Industry Overview

- In 1998, the National Bank of Cambodia (NBC) was reestablished and was put under the Governorship of H.E. Chea Chanto until today.
- Since then, Cambodia has seen many developments including the classification of banks, the requirement to issue annual reports, the establishment of a credit bureau (CBC), the creation of securities market (CSX), the requirement of external auditors and increased minimum capital requirements (in 2016).
- Cambodia's banking system is continuing to align with international institutions while adapting the best practices and financial innovations (internet banking, sms banking) to meet the needs of modernized population (Mobile phone has 90% penetration rate).
- The Ministry of Economics and Finance (MEF) as well as the National Bank of Cambodia (NBC) regulate banks and banking services through regulatory framework, compliance, audit, and required reporting. The Insurance Sector is under the MEF regulation.
- The Association of Banks in Cambodia (ABC) represents the banking sector to the Royal Government of Cambodia and the ASEAN Bankers Association. The ABC includes international, local and government owned banks.
- Cambodian banking is legislated by the Law on Banking and Financial Institutions (LBFI).
- In 2015, Cambodian MFIs performed particularly well, delivering an average return on equity of 18.76%, making Cambodia's MFI sector one of the best performing globally.[1] However, only 10-15% of the rural population has currently access to banking services

1.2 Emerging Trends & Outlook

- The degree of competition within the banking industry has grown dramatically in the recent year. As of June 2016, there are 36 commercial banks (two more under process, including the French bank BRED), 13 specialized banks,61 Microfinance Institutions (of which 7 are Microfinance Deposit Taking Institutions), and 11 leasing companies, under the supervision of National Bank of Cambodia. Besides, there is also 109 Microfinance operators, 1 Credit Bureau Company (CBC), and 2010 money changers.

[1] National Bank of Cambodia, Supervision Report 2015, Page 6

- The Association of Banks in Cambodia (ABC) released a Code of Banking Practice in February 2015. The document outlines a set of best practices, industry standards that encouraging financial institutions to be more transparent and ethical toward their stakeholders.
- The Code is said to reflect the protection mechanism for financial service users and provides rights for financial service users to complain banks or financial institutions on their services that they did not satisfy.
    - The move aims to foster confidence in the banking system and encourage a corporate culture of fair dealing. The Code covers all services offered by a bank to its customers, from simple account operations to calculating interest rates on loans or credit cards.
    - Several Cambodian financial institutions voluntarily signed on to uphold the terms of the Code immediately. It is hoped that all firms operating within the Cambodian financial industry will voluntarily adhere to the terms of the Code in future.
    - Cambodia's foreign reserves under the NBC (National Bank of Cambodia) management increased from $378 million 15 years ago, to more than $5,306 million at the start of 2015. The objective of maintaining foreign reserves is to strengthen the exchange rate regime, the country's creditability, balance of payments, financial stability, sources of income, and the national treasure repository.[2]
    - In 2015, total assets of the banking system increased by 23.21% to around $20.21 Billion, equivalent to 107.89% of GDP while total loans and deposits rose by 25.65% and 17.38% respectively.[3] According to some sources, the total credit would reach more than 90% of the Cambodian GDP.
    - In 2015, banks have improved effectiveness and scope of their operation by opening 57 new branches, 3,808 new POS, and new 178 ATM terminals, as well as issuing 143,012 new debit cards and 8,575 new credit cards.[4]

1.3 Sub-Sectors Overviews

Under supervision of the National Bank of Cambodia, there are 3 sub-sectors pertaining within the financial sector: (1) Banking Sector (2) Microfinance Sector (3) Financial Lease Sector.

[2] National Bank of Cambodia, Annual Report 2014, Page 19-20
[3] National Bank of Cambodia, Supervision Report 2015, Page 4
[4] National Bank of Cambodia, Supervision Report 2015, Page 4

Banking Sector:

- Commercial banks include
  - ACLEDA BANK
  - ADVANCED BANK OF ASIA
  - ANZ ROYAL BAK
  - BANGKOK BANK PUBLIC CO. LTD
  - BIDC PLC
  - BANK OF CHINA
  - BANK OF INDIA
  - BOOYOUNG KHMER BANK
  - CAMBODIA ASIA BANK
  - MEKONG BANK PUBLIC LTD
  - CAMBODIA POST BANK PLC
  - CCB BANK LTD
  - CAMBODIAN PUBLIC BANK PLC
  - CANADIA BANK
  - CATHAY UNITED BANK LTD
  - CIMB BANK PLC
  - FIRST COMMERCIAL BANK
  - FTB CAMBODIA
  - ICBC
  - KOOKMIN BANK CAMBODIA PLC
  - KRUNG THAI BANK PUBLIC LTD
  - SATHAPANA BANK PLC
  - MAYBANK PLC
  - MB BANK PLC
  - MEGA INTERNATIONAL BANK
  - PHILLIP BANK
  - PPCB BANK
  - RHB INDOCHINA BANK LTD
  - SACOM BANK (CAMBODIA) PLC
  - SHINHAN KHMER BANK PLC
  - TAIWAN COOPERATIVE BANK
  - UNION COMMERIAL BANK PLC
  - VATTANAC BANK LTD
  - HONG LEONG BANK
  - AGRI BANK CAMBODIA BRANC
  - SHB PLC

- and Specialized Banks
  - AEON Specialized Bank
  - Anco Specialized Bank
  - Angkor Capital Specialized Bank
  - Cam Capital Specialized Bank
  - CAMKO Specialized Bank
  - Chief (Cambodia) Specialized Bank
  - First Investment Specialized Bank
  - KHMER SPECIALIZED BANK PLC
  - Oxley-Worldbridge Specialized Bank
  - PHSME Specialized Bank
  - Rural Development Bank
  - Tomato Specialized Bank
  - Wing Ltd Specialized Bank

- In 2015, more than 50% of the banking sector are under foreign ownership in term of assets, loans, deposits, and capital.[5]

Commercial Banks

- On 22 March 2016, National Bank of Cambodia issued a Prakas indicated the increase of minimum capital requirement of banks and other financial institutions. This new policy will be put into force within 2 years starting from the signing date of the Prakas. Local incorporated banks and subsidiary of foreign banks are required by the NBC and LBFI to have a minimum capital of $75m while subsidiary of foreign banks with a rating of “investment grade” from an independent rating agency are required to have a minimum capital of $50m, and $15m for specialized banks.[6]
- Commercial banks offer a wide range of services for individual and corporate customers including but not limited to checking account, saving account, overdraft facility, term loan, exchange rate, payment settlement, payroll control, fund transfer, and so on.
- Increasingly, multinational banks are encouraging wealthy Cambodians to invest in more liquid financial assets, as opposed to investing solely in land.
- While these markets continue to grow, continuing education is needed from banks and financial consultants to alter conservatism towards the international financial market.

[5] National Bank of Cambodia, Supervision Report 2015, Table 2, Page 2

[6] Prakas on minimum registered capital of banking and financial institutions, No B7-016-117-ProKor (with exchange rate conversion of US$1 = KHR 4,000)

- As ASEAN takes form this year, more and more banks are attempting to offer region-wide services, allowing banking tools and funds to be accessible to business people across a number of ASEAN countries, if not all.
- This drive is likewise ensuring banking codes of practice and ethics are being standardized across the region, benefiting Cambodian banking practice significantly.

Specialized Banks

- A Specialized bank, according to the Law of Banking and Financial Institutions (LBFI), carries out one of the following three activities:
  1. The collection of deposits from the public that are considered “non-earmarked”;
  2. Credit operations such as leasing, commitments and;
  3. Guarantees under signature, all of which are deemed valuable considerations.

Microfinance Sector

- There are 61 Microfinance institutions in Cambodia including 7 deposit taking institutions. For more details, see on *www.cma-network.org/en/member*
- MFIs service poor and low-income families, individuals and small institutions by providing micro-credit in the form of loans and other financial support.
- The sector has grown rapidly in recent years, with 48.01% increase in total assets, 49.89% increase in loan portfolios in 2015. It grew from around $1.3bn in 2013 to over $3bn in 2015.[7]
- In order to ensure, continuous growth and prudent supervision, minimum capital requirement of Deposit Taking MFIs has increased from $2.5m to $30m while other MFIs has increased from $62,500 to $1.5m.[8]
- The largest 8 MFIs use reliable credit assessment and risk mitigation tools (use of credit bureau, personal cash flow assessment, repayment ratios on disposable income and use of funds). However, smaller and unlicensed MFIs are not using them.

Financial Leasing Sector

- Starting in 2012, financial leasing operations have evolved remarkably.
- As of June 2016, there are 11 leasing companies.
- They play a role in financing micro, small and medium sized enterprises through head offices and 17 branches with 857 employees serving up to 43,413 customers by the end of 2015.
- There were more than double increase in assets and credits from about $46.58m and $36.77m in 2014 to $102.59m and $86.24m respectively with non-performing credit of 3.16% in 2014 and 5.31% in 2015.[9]

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[7] National Bank of Cambodia, Supervision Report 2015, Figure 8, Page 7

[8] Prakas on minimum registered capital of banking and financial institutions, No B7-016-117-ProKor (with exchange rate conversion of US$1 = KHR 4,000)

[9] National Bank of Cambodia, Supervision Report 2015, Financial Leasing Sector’s Financial Performance, Page 7-8

2- Introduction of Fundamentals of Valuation

2.1 Comparative Approach versus Financial Approach

- Valuation is as much art as science. Practitioners can look for value of the company from both comparative approach as well as the financial approach perspective.
- In comparative approach, the value of the company can be determined by comparing the company with its similar peers that operate under similar industry, operation, size, and activities.
- In financial approach, the value is a function of estimates of future cash flows, risk and growth, which may or may not necessarily coincide with historical performance. However, historical measures can often help predict (or confirm other estimates of) future cash flows, risk, and growth. Any prediction of the future depends on the quality of the inputs. Appropriate adjustments to historical financial metrics can aid in making better predictions of future earnings. But what is an "appropriate" adjustment? Valuation is a range concepts.

2.2 Comparative Approach: use various methods of multiples

➢ Valuation using multiples is a process that consists of:

- Identifying comparable assets (the peer group) and obtaining market values for these assets.
- Convert these market values into standardized values relative to a key statistic, since the absolute prices cannot be compared. This process of standardizing creates valuation multiples.
- Apply the valuation multiple to the key statistic of the asset being valued, controlling for any differences between asset and the peer group that might affect the multiple.[10]
- Most used frequently used : PER, PBR, PS, EV/EBITDA

2.3 Financial Theories (Discounting Cash Flows, Fischer, Gordon & Shapiro, Annuity)

➢ Valuation Approaches: three general approaches are recognized to valuation: (1) Asset Approach (2) Income Approach (3) Market Approach. Within each approach, there are a variety of methods that appraisers use to determine value:

- *Asset Approach:* a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods based on the value of the assets net of liabilities." Methods include: Net Asset Value.
- *Income Approach:* a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods through which anticipated benefits are converted into value." Methods include: Discounted Future Benefits.
- *Market Approach:* a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership

[10] Valuation using multiples: Wikipedia, General Concepts, Accessed: July 2016.

interest, securities, or intangible assets that have been sold." Methods include: Multiples (or comparative), Transactions Multiples.

➢ **Common Valuation Methods Applied When Valuing Banks**

- **Asset Approach**
  An asset-based approach is a type of business valuation that focuses on a company's net asset value (NAV), or the fair-market value of its total assets minus its total liabilities, to determine what it would cost to recreate the business. There is some room for interpretation in the asset approach in terms of deciding which of the company's assets and liabilities to include in the valuation, and how to measure the worth of each.[11]

- **Market approach or Comparative Approach**
  - The market (or relative valuation) approach is probably the simplest way to value a bank. Analysts' conclusions based on this approach could be easily found in business reports on a regular basis, where reasonably comparable guideline companies are defined primarily by expert opinions and multiples' comparisons. The most sufficient multiples for bank valuation are the price-earnings ratio (P/E) and the price-to-book value ratio (P/BV). P/E ratio, as a function of three variables – the expected growth rates in earnings, the payout ratio, and the cost of equity, depicts some specific characteristics for bank valuation revealed previously.
  - Start with universe of public banks and segment further by screen for (1) Size (2) Geography (3) Difficult to find a good group for more rural banks (4) Profitability (ROA, ROE, etc.) (5) Loan composition (6) Growth (loans, EPS, etc.)

- **Income Approach or Financial Approach**
  - Relies upon a projection of future financial performance. It requires following inputs:
    - ❖ Interim cash flows to shareholders/investors (or DDM with dividends)
    - ❖ Amount necessary to be retained for the bank to achieve its target capital structure (based on a target capital ratio)
    - ❖ A "terminal" or "residual" value which represents value of all cash flows received after the end of the forecast period
    - ❖ Discount rate (WACC)
    - ❖ Discounting convention
  - Value equals the sum of the present value of the cash flows, discounted at the discount rate

3- DCF & WACC: Financial Approach

3.1 Discounting Cash Flows Model

DCFs are helpful in certain circumstances:
1. Near-term growth is expected to exceed long-term expectations
2. Near-term profitability is low/high and is expected to revert to a mean
3. Capital structure may change in the future

[11] Investopedia, Asset based approach, Accessed: July 2016

THE VALUE TODAY OF A SERIES OF FUTURE FREE CASH FLOWS

Present Value = $\frac{FCF1}{(1+i)} + \frac{FCF2}{(1+i)2} + \frac{FCF3}{(1+i)3} + \ldots + \frac{FCFn}{(1+i)n} + \frac{TVn}{(1+i)n}$

FCF = free cash flow to capital—end of each period.
i = cost of capital or hurdle rate.
t = time, usually in years.
n = the last period of the planning horizon
TV = terminal value. This is the value at the end of the planning horizon.

1. Free Cash Flow: Earnings before interest after taxes (EBIT) + Depreciation, Amortization, Deferred Taxes, Write-downs, and Other Non-Cash Charges - Periodic (annual) change in working capital - Periodic (annual) change in gross investments - Periodic (annual) changes in capitalized operating leases - Investment in Goodwill.

   An alternative: EBITDA - Periodic change in working capital - Periodic change in net investments (after accumulated depreciation, amortization, and other noncash charges) - Periodic changes in capitalized operating leases - Investment in Goodwill.
   Free cash flow is that flow of funds available to pay interest, dividends, and principal payments to debt and equity investors. Free cash flow to equity is that flow available to common stock investors, i.e. common stock dividends or (FCF - after tax interest -principal repayment - payments to preferred stock).

2. Cost of Capital WACC: Accounts for investors' liquidity preference, future inflation (if FCF is in current currency), maturity risk, market risk, leverage risk, unsystematic company risk, and country risk (if outside the U.S). The hurdle rate is the capital cost for business units, products/product lines within the company and will vary as risk varies among similar investment opportunities. The weighted average of business units' or products/product lines' hurdle rates = company cost of capital. Cost of capital is incremental and future oriented. Past (sunk) costs matter only as a basis for forecasting future costs.
3. Terminal Value: The value of the asset(s) at the end of the planning horizon. Discount the Terminal Value back to the present to obtain its present value. Here are two common ways to determine the terminal value:
   a. *Market Value Method:* FCF_n * (Asset Value / FCF of comparable companies). (Use of * denotes multiplication.) Or use other market or multiples methods (example, we use 3 times EBITDA in our case study)
      i. As a going concern.
      ii. Liquidated value of the assets minus or plus capital gains tax.
   b. *Gordon Growth Model:* FCF (n+1)/ (Cost of Capital - % expected growth (g) in FCF from n+1 onward forever). Also FCF_n * (1+ g)

3.2 Strengths & Weakness of Discounting Cash Flows Model

- Primary strength: Provides quantitative analysis of future risk and reward. A thing is worth what it will earn over time discounted (reduced) by a factor "i" to account for risk, expected inflation and investors' liquidity preference or "real" rate of interest.

- Primary weakness: Numbers must be forecast. Gordon Growth Model meaningless if growth is nearly as great as or greater than the discount rate. Also, the Gordon model is infinite, it is not likely that the company will continue to have the same growth rate or even exist "forever". Company FCFs tend to regress toward the mean.

3.3 Advantages and Disadvantages

Advantages of Multiples

- Objective – does not require discount rate of terminal value
- Simple – does not require elaborate forecast
- Flexible – can use alternative multiples and make adjustments to the multiples
- Theoretically with DCF method if there are stable cash flows and constant growth => FCF/(k-g).

Disadvantages of Multiples

- Valuation depends on opinions of others and not the underlying drivers of value.
- Too simple: Does not account for prospective changes in cash flow
- Accounting Based: Depends on accounting adjustments in EBITDA, earnings
- Timing Problems: Changing expectations affect multiples and using multiples from different time periods can cause problems.

Advantages of DCF

- Theoretically Valid – value comes from free cash flow and assessing risk of the free cash flow.
- Operating and Financial Values – explicitly separates value from operating the company with value of financial obligations and value from cash
- Sensitivity – forces an understanding of key drivers of the business and allows sensitivity and scenario analysis
- Fundamental – not biased by optimism or pessimism in the market

Disadvantages of DCF

- Assumptions: Requires WACC assumptions and residual value assumptions. There are major problems with WACC estimation and the long-term growth assumption.
- Forecasting Problems: Complex forecasting models can easily be manipulated
- Growth: The residual value depends on a number of assumptions which can easily distort value

4- CASE STUDY: ACLEDA Bank Valuation

4.1 Comparative Approach

➢ For the comparative approach, we have selected top four Thai Banks, as for comparable peers for the multiple approach valuation:

- Bangkok Bank US$83.9 billion (total assets)
- Krung Thai Bank (56% owned by Thai government) US$83.4 billion
- Siam Commercial Bank US$82.1 billion
- Kasikorn Bank US$70.8 billion

With the information provided by Yahoo Finance, Bloomberg, Wall Street Journal, we have computed the average of the industry (PER: Price to Earnings ratio, PS: Price to Sales ratio, PB: Price to Book ratio) as follows:

	PER	PS	PB
Bangkok Bank	8.25	3.51	0.84
Krungthai Bank	8.25	2.72	0.88
Siam Commercial Bank	11.06	4.77	1.53
Kasikorn Bank	11.41	3.61	1.41
Average	**9.74**	**3.65**	**1.17**

Through the multiple approach, we can now estimate a fair value for ACLEDA. The fair value of ACLEDA is: **864 Mn$** (average of the three multiple approach)

	Average Industry	ACLEDA	2015	Valuation
PER	9.74	Earning	105.07	1023.62
PBR	1.17	Book Value	541.17	630.46
PS	3.65	Sales	256.70	937.59
				864.00

4.2 Discounting Cash Flows Model

- Before calculating the DCF, let us have a look at the WACC. The gearing ratio of ACLEDA is about 1.5x, meaning that the bank is highly leveraged and have more debt that equity. The percentage of debt is 60% and the equity 40%. We assume that the cost of debt Kd is 10%, the cost of Equity Ke is 38% (see the CAPM calculation), and Tax at 20%. The Weighted Average Cost of capital or WACC is 20%

WACC= 0.6 x 10% x (1- 20%) + 0.4 * 38% = 20%

- For the Cost of Equity, we assume a risk free rate of 8% and an Equity Risk Premium of 25% relevant for Emerging Markets, and a Beta of 1.2 for the commercial banking sector

Cost of Equity = Ke = rfr + beta x ERM = 8% + 1.2* 25% = 38%

- After computing our FCF sequences (Free Cash Flow) and discounted with a WACC of 20%, and terminal at 3 times the EBITDA 2020 (e), the **value of the firm is 1.586** Bn$ and the **value of equity is 1.071** Bn$ (Value of the Firm = Value of Equity + Value of Debt)

		2015	2016	2017	2018	2019	2020
Year		0	1	2	3	4	5
Net interest income		256,697,203	279,185,027	303,322,116	329,169,215	356,775,808	386,176,178
EBIT		132,591,280	143,350,217	154,766,102	166,881,594	179,758,178	193,486,483
Depreciation & Amortization		19,177,907	22,687,405	26,854,531	31,804,436	37,686,324	44,678,102
EBITDA		151,769,187	161,281,477	171,378,023	182,108,546	193,531,239	205,714,732
Increase in Reserve, Deposit vs Liabilities		(25,948,959)	155,364,733	176,513,021	202,531,751	234,866,401	275,406,634
FCF		125,820,228	316,646,210	347,891,043	384,640,297	428,397,639	481,121,367
Terminal Value (3 times EBITDA)							714,493,756
Discount factor (WACC)	16.8%	1.000	0.833	0.694	0.579	0.482	0.402
Present Value		125,820,228	218,517,888	198,672,310	180,643,548	164,262,249	433,277,690

Value of the Firm	**$ 1,586,205,765**
Value of Debt	(515,119,562)
Value of Equity	**$ 1,071,086,203**

4.3 Interpretation of both valuation approach

Comparative Approach: 864 Mn$

Financial Approach: 1,071 Mn$

➢ The value of equity is between 864 Mn$ and 1,071 Mn$. Knowing that ACLEDA has 265,726,050 ordinary shares as of 31.12.2015, the price per share (fair value divide by number of shares) would be :

		USD	RIEL
Higher range	*Financial*	4.03	16,123
Lower Range	*Comparative*	3.25	13,006

➢ It means that if ACLEDA would go public today, the IPO trading range would be between 3.25$ and 4$.the share would be priced between 8.22x and 9.4x (PER based on EPS 2015 ads of 0.3954, which is still reasonable compared to banking peers.

Conclusion

In the search of the Fair Value

- We relied upon two methodology to get a valuation of ACLEDA Bank, under Comparative and Financial Approaches to business valuation: Capitalized Earnings method, Comparative ratios method, Industry peers average, Discounted Cash Flow (DDM can also be an alternative) and Multiples of Earnings methods.
- Each of the business valuation methods utilized in this Report is to calculate an estimate of the business value also called the Fair Value.
- We use the results obtained from these business valuation methods to provide an estimate of the subject business value, in case of : Merger & Acquisition (M&A) and Initial Public Offering (IPO) when the company is going public (get listed at the stock market)

Buy side and sell side valuation

- The Business Value and Selling Price should also be taken into considerations: usually we say “ BUY-SIDE” Valuation (for the Buyer) and “SELL-SIDE” Valuation (for the Seller)
- A number of consideration (factors and assumptions used in the models) whether you are BUY-SIDE” or “SELL-SIDE”, will then affect the price. For instance, the WACC of the Buyer will be much higher than the WACC of the Seller, resulting a lower fair value on the Buy Side compared to the Sell Side
- The terms of a purchase can also make a substantial difference to the actual selling price. The amount of equity capital required from the buyer to close the deal has a direct impact on the type of return the buyer can expect from the investment.
- On the other hand, debt financing terms, whether offered by the seller or secured from a bank, will also affect the levels of cash flow required from the small business to make its acquisition financially worthwhile. The capital structure of the company is also important.