

Report on Rigorous Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Táňa Moleková	
Advisor:	Filip Hájek	
Title of the thesis:	Pricing methods and value of the firm	

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Rigorous thesis of Tana Molekova is of decent size – 50 pages of text, with almost the same length of details provided in appendix.

This Rigorous thesis is just a slight improvement on the Master thesis Tana made at IES, with minor changes in the text. In this respect, my assesment will be similar as with her Master Thesis.

Her thesis can be divided into two separate parts – theoretical background and the actual analysis. Theoretical background provides high level overview of asset pricing theories and calculations used, it is a thorough text that can be used as a textbook for valuation, and in this respect it's value is just to provide intorduction and theoretical basis for her later work.

In second part she analyzes certain stocks on Prague stock exchange with multiple models, based on the result and predictive power selects one that provides the "best fit" and then uses this model to predict value of certain other stocks to provide investment recommendation.

Even though I have not found any significant mistakes in the thesis I provide following comments that I have though of while reading it:

- ▶ When calculating beta quarterly data is used, even though standardized best-practice is 2 years of weekly data; use of quarterly data is in my view dubious for example in case of Zentiva, where in one case only handful of observations is used
- ▶ I have not been able to fully grasp from the text use of EVA. Is my assumption that EVA valuation method is based on book value of invested capital and than discounted cash flows of "residual" cash flows (i.e. difference between actual profit and hurdle rate cost of capital)?
- ▶ If such assumption is correct it is not that suprising to me that EVA does far better then FCFF, FCFE in turbulent times when profit fluctuates very much, and in case where gordon formula is used for perpetuity. In such cases FCFF and FCFE models which are heavily back loaded are much more influenced on current drop in earnings than front loaded EVA. Using in turbulent times FCFE model that is based on current profit (much higher or lower) is in my opinion troublesome since it has significantly impaired explanatory power.
- ▶ To overcome this impracticality I would recommend using 3-stage model where firm would use second transitory stage to converge to industry average levels of indebtness and margins.
- ▶ Also for any such work I would highly recommend stripping financial results of selected companies from irregular and one-off items, to provide more transparent view of their operating results.

Overall, I find master thesis of Tana Molekova to be prepared in accordance with all standards, but I found the contribution to be below average and therefore I recommend "**velmi dobře**" (good, 2).

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Literature (max. 20 points)	16
Methods (max. 30 points)	24
Contribution (max. 30 points)	15
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	75
GRADE (1 – 2 – 3 – 4)	2

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NAME OF THE REFEREE: FILIP HÁJEK (Czech, or Slovak)

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