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Red Star Furniture Group Co. LTD.



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Fancy a Price?

DCF: The Steps

- we discount cash flow values, we need
 - to estimate the CF of the asset
 - to estimate the future change in cash flow during the life of the asset
 - to estimate the discount rate to apply to these cash flows
 - to get present value
 - choose the right DCF model for the asset and value it

Intrinsic Value??

intrinsic value: value the value of an asset to the investor, independent from its ability to generate cash flow. It's the value of the project, not the cash flow.

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Valuation is All About Judgments!

Valuation techniques (such as DCF) are all quantitative, but valuation is a subjective matter.

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WHY DCF?

- Profit can be influenced by accounting assumptions but not cash.
- Cash generated in the future cannot be hidden, nor it can be hidden by accounting gimmicks.

FINANCIAL KING

Revenue is mostly profit of equity, cash is mostly a return to equity.

How much the market (or analyst) is willing to pay for all cash flows is the value of the company.

DCF:

The DCF valuation takes all cash flows projected into the future (initially) and discounts it back to present value. Represents a company's "intrinsic" value.

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Valuation!!



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So Coming to the Million \$ question!!

- What is Valuation?
- What is Discounted Cash Flow?

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Limitations & Assumptions of DCF

- DCF is more complex than other valuation techniques, because it is more subjective, it is the individual's choice about discount rate and growth rate.
- Very sensitive to cash flows.
- Discount rate is highly sensitive to risk and growth rate.
- Cash flows and discount rates are not only highly sensitive to risk, but also to the quality of the data used to estimate them.
- The quality of the data used to estimate them is a key factor in the quality of the valuation.

DCF Works Best When

• If the cash flows are predictable, stable, and long-term, DCF works best. If the cash flows are highly volatile, DCF works less well.- If the discount rate is low, DCF works better. If the discount rate is high, DCF works less well.
- If the growth rate is low, DCF works better. If the growth rate is high, DCF works less well.

Seems so easy, aint it?

Don't get me wrong by using DCF for valuation



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Valuation is All
About Judgement!!

Valuation Techniques (such as DCF) are
all Quantitative. Hence Valuation is a
subjective matter.
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Intrinsic
Value ??

Intrinsic valuation is the value of an asset to its
owner, based on its intrinsic characteristics such as:
• its capacity to generate cash flows
• its risk
• its growth
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DCF: The Steps

- we discount cash flow valuation, we need:
 - to estimate the WACC of the asset
 - to estimate the future earnings or cash flows during the life of the asset
 - to estimate the discount rate to apply to these cash flows to get present value
- Choose the right DCF model for this asset and value it.

WHY DCF?

- Profit can be influenced by accounting assumptions but not cash
- Cash generated in the business cannot be hidden, nor it can be hidden by accounting gimmicks

Cash King

Remember 88 words! Profit is
easily cash is king! - Warren
Buffett

One must be careful not
to say "The chess king makes
all great men think like it"






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Valuation!!

Firefox Thomas Prescher Tourbillon Triple Axis ...

www.amazon.com/Thomas-Prescher-Tourbillon-Regulator-Mechanical/dp/B009I3TG2/ref=sr_1_3?s=watches&ie=UTF8&qid=1352662534&sr=1-3&keywords=watches

Member: Faiaz Rahman



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So Coming to the Million \$ Questions???

- What Is Valuation?
- What is Discounted Cash Flow??

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Valuation is All About Judgement!!!

Valuation Techniques (such as DCF) are all Quantitative. Hence Valuation is a subjective matter

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DCF:

The DCF calculation Takes all cash flows projected into the future (infinitely) and discounts it back to present value

Represents a company's "intrinsic" value

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Intrinsic Value ??



Intrinsic valuation, relates the value of an asset to its intrinsic characteristics such as:

- 1) Its capacity to generate cash flows
- 2) Risk in the cash flows.
- 3) Growth of the Project's cash flows

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DCF: The Steps

To use discounted cash flow valuation, we need

- to estimate the life of the asset
- to estimate the future earnings or cash flows during the life of the asset
- to estimate the discount rate to apply to these cash flows to get present value
- Choose the right DCF model for this asset and value it.

WHY DCF?

- Profit can be influenced by accounting assumptions but not cash
- Cash generated in the business cannot be hidden; nor it can be hidden by accounting Gimmickry

