



# Subject Outline

## **FIN202 Fundamentals of Asset Valuation**

## Section 1 — General information

### 1.1 Administrative details

| Duration                    | Credit points | Level |
|-----------------------------|---------------|-------|
| One study period (12 weeks) | 6             | AQF8  |

### 1.2 Core or elective subject

This is a core subject for the Graduate Certificate in Corporate Finance and an elective subject for the Graduate Certificate in Mining Finance, Graduate Certificate in Applied Finance, Graduate Diploma of Applied Finance and Master of Applied Finance.

### 1.3 Delivery mode

This subject is delivered online.

### 1.4 Assumed knowledge

Whilst there are no prerequisites for this subject, Kaplan assumes that students have completed FIN201 Quantitative Applications in Finance, or understand the content covered in this subject, prior to undertaking FIN202 Fundamentals of Asset Valuation.

### 1.5 Course transition subject equivalence

Students may not be required to complete this subject if they have transitioned from a SIA/Finsia/Kaplan course and have completed the following subjects:

- there are no equivalences for this subject.

### 1.6 Work integrated learning

There are no placements, internships or work experience requirements associated with undertaking this subject.

### 1.7 Other resource requirements

Students do not require access to specialist facilities and/or equipment to undertake this subject.

## Section 2 — Academic details

### 2.1 Subject overview

---

This subject focuses on the basic principles of asset valuation, including the difference between price and value, and the purpose of valuing assets. It also explores valuation methodologies, and how they may be used in the valuation of asset classes such as equity, debt, property, hybrid and derivative securities. To cement their understanding of these concepts, students review valuation examples, then perform their own valuations using detailed fictitious case studies and provide practical recommendations based on the outcomes.

### 2.2 Subject learning outcomes

---

On successful completion of this subject, students should be able to:

1. Explain the concept of valuation and the purpose of valuing assets.
2. Construct a valuation based on the discounted cash flow valuation method.
3. Explain capital market theory and other pricing theories.
4. Analyse the determinants of the pricing of debt securities.
5. Analyse how hybrids provide flexibility for management.
6. Explain the basic principles in pricing futures and options.
7. Evaluate valuation techniques for real estate assets.

### 2.3 Topic learning outcomes

---

#### Topic 1: Introduction to asset pricing and valuation

On successful completion of this topic, students should be able to:

- explain the difference between price and value
- explain the purpose of valuing assets
- explain why the value of an asset can vary depending on the investors involved
- explain the link between risk, return and valuation.

#### Topic 2: Discounted cash flow

On successful completion of this topic, students should be able to:

- explain the DCF methodology
- calculate a cash flow forecast
- evaluate the components of a DCF valuation
- construct a DCF valuation model.

### Topic 3: Capital market theory

On successful completion of this topic, students should be able to:

- integrate the theoretical framework underlying the pricing of risk for securities
- explain the concept of beta
- explain the use of the cost of capital as a required rate of return
- analyse the different approaches to analysing the cost of equity
- calculate the weighted average cost of capital (WACC) of a company
- explain why betas are regressed
- calculate adjustments to ungear and regear betas.

### Topic 4: Other pricing models

On successful completion of this topic, students should be able to:

- explain the advantages and disadvantages between the CAPM and alternative measures of the cost of equity capital
- compare alternative constructs of discount rates and cash flows
- explain how to incorporate risk into a DCF valuation on an internally consistent basis
- apply CAPM in an international context.

### Topic 5: Pricing debt securities

On successful completion of this topic, students should be able to:

- price discount and coupon securities
- evaluate different investment opportunities
- calculate profits and losses on investments
- calculate the value of debt securities using the bill pricing formulae, the RBA bond pricing formulae and the FRN formula.

### Topic 6: Hybrid securities and convertible notes

On successful completion of this topic, students should be able to:

- explain the various types of hybrid securities
- explain why convertible notes are issued and factors affecting their value
- apply the general principles of valuing hybrid securities and the methods used to value convertible notes
- understand the tax implication of raising funds through convertible notes
- explain how hybrid securities are accounted for and presented in the issuers' financial statements.

### Topic 7: Property valuation

On successful completion of this topic, students should be able to:

- describe real estate assets and the different property sectors
- explain the purpose of valuations
- describe how to determine net rental, gross rental and the capitalisation rate
- explain reversions and their importance to valuation
- distinguish between initial yield, reversionary yield, and equivalent, equated or actual yield
- describe the main valuation techniques and their applications
- apply simple calculations related to valuation.

### Topic 8: Pricing derivatives

On successful completion of this topic, students should be able to:

- calculate a futures contract price
- explain different types of basis risk
- construct a desired hedge
- calculate the value of a physical bank bill and the value of a bank bill futures contract using the discount yield formula
- calculate the value of three-year and 10-year bond futures contracts
- analyse the six factors that influence the price of an option
- construct basic pay-off diagrams as a visual representation of the risk–reward profile of options positions.

### Topic 9: Pricing options

On successful completion of this topic, students should be able to:

- analyse the principles used in options pricing
- summarise the put-call parity rule
- compare the strengths and weaknesses of the binomial and Black-Scholes approaches to pricing of options.

## 2.4 Assessment schedule

| Assessment | Description   | Week    | Topics | Weighting | Subject learning outcomes assessed |
|------------|---|---------|--------|-----------|------------------------------------|
| Task       | Scenario based questions on company valuation methodology in a case study | Week 4  | 1–3    | 20%       | LO1–LO3                            |
| Assignment | Construct a DCF model and perform various calculations                    | Week 7  | 1–6    | 40%       | LO1–LO5                            |
| Exam       | A series of multiple-choice, short-answer and scenario based questions    | Week 12 | 4–9    | 40%       | LO1–LO7                            |

Please refer to our website <[www.kaplanprofessional.edu.au](http://www.kaplanprofessional.edu.au)> to review student policies relating to your assessment, including the *Kaplan Assessment Policy* and *Academic Integrity and Conduct Policy*.

## 2.5 Prescribed text

There is no prescribed text for this subject. Students are provided with key readings and access to Kaplan's online databases. Students are encouraged to research and read widely on the topic.

## 2.6 Study plan

| Week(s)                         | Topic name  | Study load in hours |
|---------------------------------|---|---------------------|
| 1                               | Topic 1: Introduction to asset pricing and valuation            | 10                  |
| 2                               | Topic 2: Discounted cash flow                                   | 9                   |
| 3                               | Topic 3: Capital market theory<br>Topic 4: Other pricing models | 12                  |
| 4                               | Topic 5: Pricing debt securities                                | 12                  |
| 5                               | Topic 6: Hybrid securities and convertible notes                | 12                  |
| 6                               | <b>Assignment (Weighting 40%)</b>                               | 12                  |
| 7                               | Topic 7: Property valuation                                     | 7                   |
| 8                               | Topic 8: Pricing derivatives                                    | 8                   |
| 9                               | Topic 9: Pricing options  | 8                   |
| 10                              | Exam preparation  | 10                  |
| 11                              | Exam preparation  | 10                  |
| 12                              | <b>Exam (Weighting 60%)</b>                                     | 10                  |
| <b>Total minimum study load</b> |   | <b>120 hours</b>    |

|   |                  |
|---|------------------|
| Additional study hours (if required), dependent on knowledge and personal commitments | 50 hours         |
| <b>Total study load, including additional study hours</b>                             | <b>170 hours</b> |