

School of Business and Economics

Thesis

“Investor views about intrinsic value and stock price”

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Preface and Acknowledgements

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Abstract

The objective of the study is to examine the difference between price of a stock and its intrinsic value by applying DDM (dividend discount model). Study will also identify whether the stocks are overvalued or undervalued, when comparing with its intrinsic value. This study has a rare focus in the context of Pakistan because at this pointing time investors are more curious while picking a stock when investing in the stock market. This study has a great implication for those who wanted to be invested in the stocks. Thus this study will be useful for

- Investors while making better investment decision
- Financial managers can predict market returns
- Financiers can make informed financial investments

There are 30 companies selected as a sample population from the fiscal year 2005 to fiscal year 2014. These companies have been chosen as sample sizes that are stable, profit oriented and having the ability to pay dividends and listed at the Karachi stock exchange. Dividend discount model is used to measure the intrinsic value of firm and returns of stocks are obtained by using the CAPM. Stock prices are gathered from the KSE 100 index. Thesis data had been gathered from annual reports of companies that are easily downloaded from the particular sites.

Empirical findings for the valuation of 30 companies are present in the empirical findings section. I analyze and present the data together with assumptions that is made for every company. After this an extended analysis is presented, the purpose of the findings is to get a better understanding from our results in the empirical findings and to analyze the data even more.

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Study mainly focuses on the difference between value and price which brings changes among the investor investment decision. So, it is concluded that intrinsic value of firm have significant different from its stock price and upon this analysis investor can make informed decision about the allocation of the financial investments.

Keywords: intrinsic value, stock price, investment decision, CAPM, Dividend Discount Model