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CHAPTER

Relative Valuation

Multiple Choice Questions

1. A demerit of relative valuation is that there is no conceptual foundation for most of its metrics:
(a) True (b) False

2. Price-sales ratio is not an enterprise valuation multiple:
(a) True (b) False

3. Stocks with high P/E multiples are seen to outperform the market:
(a) True (b) False

4. P/B multiple may be more meaningful than the P/E multiple when EPS is highly volatile:
(a) True (b) False

5. P/B multiple can be used with advantage in relative valuation of IT companies:
(a) True (b) False

6. A stock trading at a P/S multiple of 0.80 may be considered a bargain:
(a) True (b) False

7. P/S multiple is typically more stable than the P/E multiple:
(a) True (b) False

8. The companion variable for P/B multiple is the EPS:
(a) True (b) False

9. Value ratio for a loss making company does not make any economic sense:
(a) True (b) False

10. EV/BV multiple does not focus on the value of equity:
(a) True (b) False

11. Free cash flow to firm tends to be more volatile than EBIDTA:
(a) True (b) False

12. FCFF will be significantly less than EBIDTA in the years when a company makes large investments:
(a) True (b) False

13. P/E multiple is recommended in valuing companies that have significant non-cash expenses:
(a) True (b) False

14. It is advisable to use EV/FCFF multiple to value a firm whose capital expenditures are predictable and growth stable:
(a) True (b) False

15. PEG multiple is less appropriate than EV/Sales multiple in the valuation of a start-up company:
(a) True (b) False

16. Empirical evidence suggests that forward-looking multiples of cash flows are not better predictors of value than the historical ones, as the former have considerable elements of subjectivity:
(a) True (b) False

17. It is a fact that in practice, relative valuation is more popular than the conventional DCF valuation:
(a) True (b) False

18. Relative valuation approach is likely to be more affected by market valuation errors than the DCF approach:
(a) True (b) False

19. The conceptual foundation for most relative valuation metrics is provided by the DCF approach:
(a) True (b) False

20. In the relative valuation process, while analysing the subject company, which of the following may not be a key aspect to be covered?
(a) Technological and production capacity
(b) Managerial competence and drive
(c) Competitive dynamics
(d) Market segments covered by the firm
(e) None of the above.

21. Which of the following is equity valuation multiple?
(a) Price-book value ratio.
(b) Price-sales ratio
(c) Price-earning ratio
(d) All the above
(e) None of the above.

22. The most popular equity valuation multiple is:
(a) P/B
(b) P/E
(c) P/S
(d) P/M
(e) None of the above.

23. As on 31st March 20X1 a company's equity share price stood at Rs.20 and the earnings for the year ending that day was Rs.10 million. What is its P/E multiple in its most common version?
(a) 0.5
(b) 2.0
(c) 0.8
(d) 1.0
(e) None of the above.

24. The number of outstanding equity shares and balance sheet figures of (a) and (b) are identical except for the fact that the shareholders' funds of A is equal to the shareholders' funds of B and the preference capital of B. The P/B multiple of B will then be:

(a) Equal to that of A
(b) More than that of A
(c) Less than that of A
(d) Not a unique figure
(e) None of the above

25. When EPS is highly volatile, P/B multiple may be more meaningful than the P/E multiple:
(a) True (b) False

26. P/B multiple has the drawback that:
(a) Human capital, brand equity etc. are not reflected in the balance sheet
(b) Book values differ from market values
(c) Different business models may require different levels of assets
(d) All the above
(e) None of the above

27. Which P/S multiple is popularly used as a norm for all companies as a rule of thumb?
(a) 1.33
(b) 68.33
(c) 1.00
(d) 1.5
(e) None of the above

28. The companion variable for the multiple P/B is:
(a) NPM
(b) ROE
(c) g
(d) B/P
(e) None of the above

29. The only multiple that has no companion variable is:
(a) P/E
(b) P/S
(c) P/B
(d) All the above
(e) None of the above

30. Value ratio is inversely proportional to:
(a) P/E
(b) P/B
(c) g
(d) ROE
(e) None of the above

31. Which among the following is the favourite multiple of financial analysts?
(a) Value ratio
(b) PEG multiple
(c) PSM

(d) PVM
(e) None of the above

32. Analysts often consider EBITDA as a crude proxy for:
(a) PAT
(b) FFCF
(c) FCF
(d) Sales
(e) None of the above

33. FCFF is considered much more stable than EBITDA:
(a) True (b) False

34. P/E multiple is more appropriate for firms that have:
(a) A proven record of positive earnings
(b) No significant non cash expenses
(c) A relatively low growth rate
(d) Both (a) and (b)
(e) None of the above